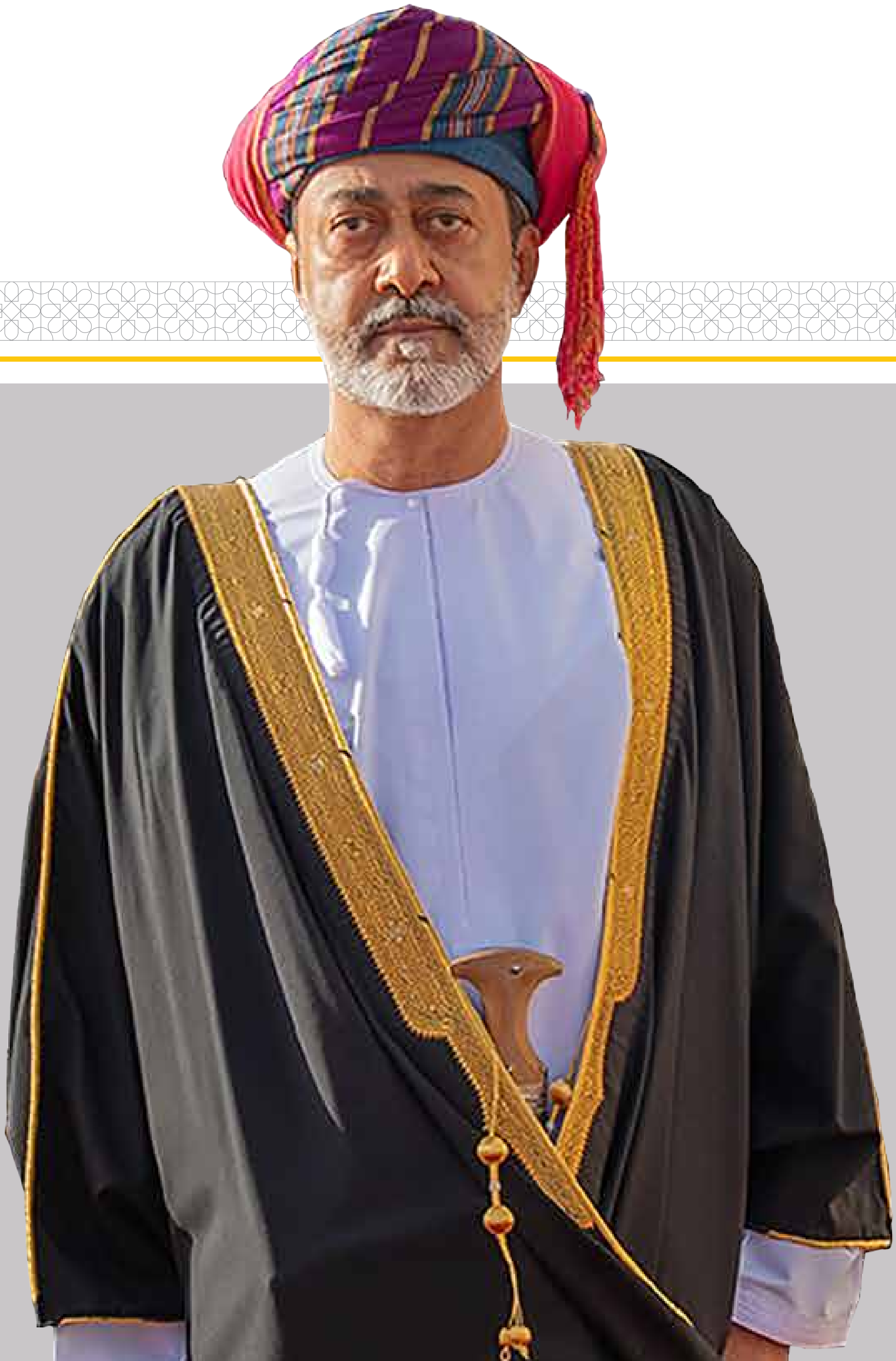
ANNUAL REPORT 2020

بنك نزوى
Bank Nizwa

www.banknizwa.om

HIS MAJESTY SULTAN HAITHAM BIN TARIK



HIS MAJESTY SULTAN QABOOS BIN SAID

May his soul rest in peace

In 2020, Bank Nizwa proved its credentials as Oman's leading and most trusted Islamic bank – and beyond.

In financial performance, we delivered a 9% growth in net profit, despite unprecedented macroeconomic challenges. We increased the market share for Sharia banking, achieving 16% growth in deposits and 20% growth in financing with individuals, businesses and government customers.

To support the growing needs of Sharia Compliant Banking, we fast-tracked our digitalisation journey with significant investments in all electronic customer interfaces and platforms. We enhanced the ability of Bank Nizwa team members to stay connected, engage and develop themselves using new age learning and productivity tools, moving closer to the goal of being the employer of choice in our sector.

As a good corporate citizen, we stepped up to our responsibility by contributing over OMR 600,000 to combat COVID-19 and volunteered hundreds of hours of selfless service to our community.

With the support of our stakeholders, Bank Nizwa has truly emerged in 2021 as one of the most resilient and dynamic brands in Oman.

CONTENTS

BOARD OF DIRECTORS

SHEIKH KHALID ABDULLAH ALI AL KHALILI
CHAIRMAN

MR. MUSABAH SAIF MUSABAH AL MUTAIRY
VICE CHAIRMAN

SAYYID AMJAD MOHAMMED AHMED AL BUSAIDI
MEMBER

SHEIKH SAIF HILAL NASSER AL MAWALI
MEMBER

SHEIKH MAJID ALI MAJID AL MAMRI
MEMBER

MR. HUSSAIN YOUSEF DAWOOD AL SHALWANI
MEMBER

MR. ISHAQ ZAYED KHALIFA AL MAWALI
MEMBER

MR. SAMI YAHYA HAMED AL DUGHAISHI
MEMBER

EXECUTIVE MANAGEMENT TEAM

MR. KHALID JAMAL AL KAYED
Chief Executive Officer

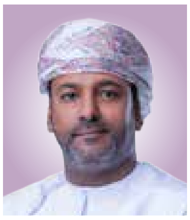
MR. R. NARASIMHAN
General Manager
Wholesale Banking

MR. NASSER SAID AL LAMKI
General Manager
Internal Audit

MR. MUJAHID SAID DAUD AL ZADJALY
General Manager IT & Operations

MR. MOHAMED FIDA HUSSAIN
Deputy General Manager Risk Management and Chief Risk Officer

MR. ARIF MAQBOOL AL ZAABI
Assistant General Manager
Retail Banking



MR. SALIM RASHID ALI AL MAHARBI
Chief Financial Officer

MR. SAIF ABDULLAH AL RAWAHI
Assistant General Manager
Investment, Treasury, Government Relations and Project Finance

MR. ABDUL GHAFOOR AL BALUSHI
Assistant General Manager,
SME and International Banking

MR. TARIQ MOHAMMED OSMAN
Head of Legal Department
and Board Secretary

DR. MANSOOR ALI AL QUDAH
Head of Sharia

H.H. SAYYIDA WISAM JAIFER AL SAID
Head of Marketing & Communications

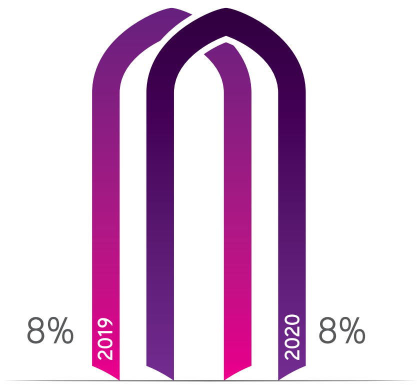
MS. HAIFA ABDUL ALI AL LAWATI
Head of Human Resource

MR. MOHAMMED AL HASHMI
Head of Compliance

MR. AHMED ABDULLAH AL WAILY
Senior Manager
Corporate Communications

FINANCIAL HIGHLIGHTS
CONSISTENT PERFORMANCE DESPITE CHALLENGES

GROWING SHAREHOLDERS' WEALTH

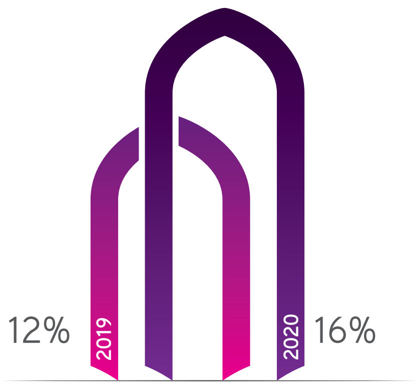


GROWTH IN EQUITY

GROWING REACH OF ISLAMIC FINANCE

GROWTH IN FINANCING

TRUSTED BANK OF THE COMMUNITY

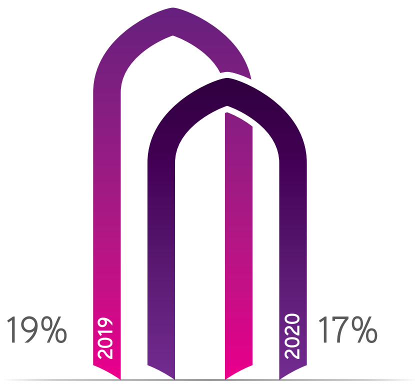


GROWTH IN DEPOSITS

FINANCIAL HIGHLIGHTS

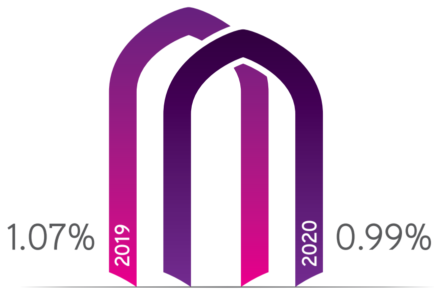
CONSISTENT PERFORMANCE DESPITE CHALLENGES

GROWING MARKET SHARE



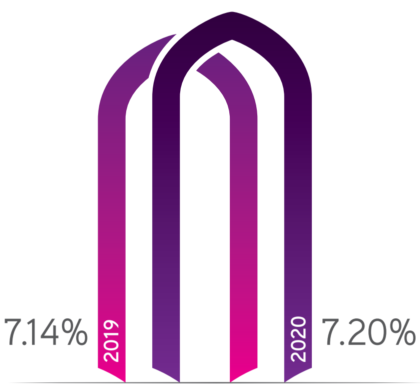
GROWTH IN ASSETS

EFFICIENT OPERATIONS



RETURN ON ASSETS

GROWING RETURN ON INVESTMENT



RETURN ON EQUITY

CHAIRMAN'S REPORT

Sheikh Khalid bin Abdullah bin Ali Al Khalili

Dear Shareholders,

Assalamu'alaikum Wa Rahmat Allah Wa Barakatuh,

On behalf of the Board of Directors of Bank Nizwa SAOG, I am pleased to present to you the Financial Statements and Auditor's Report for the financial year ended 31st December 2020.

The year 2020 was forever unique in the country's history, started with the loss of late His Majesty Sultan Qaboos bin Said Bin Taimur. May Allah rest his soul in eternal peace. However, the swift and smooth transition of power to His Majesty Sultan Haitham bin Tarik bin Taimur's wise leadership helped the country remain on the track of growth and prosperity and a new era of renaissance began. We are optimistic about the measures taken by the government during the past period, which will help breathed life into all economic sectors in spite of all the unprecedented challenges facing the process of structural transformation of the Omani economy, under the wise leadership of His Majesty Sultan Haitham.

While the government was continuing its pace with regional and global changes, generate and seize opportunities to foster economic competitiveness, social well-being of people, stimulate growth, and build confidence, the world dynamics and economies got changed because of COVID-19 pandemic. To respond to this situation, the prompt intervention of the Ministries and Government authorities, helped the economy to sustain the shock and successfully able to contain the spread of virus which is the reflection of the strength and resilience of the system, and the positive impact that new government transformation initiatives is having on the country's development.

In this regard, I would like to pay rich tributes to our frontline health and safety workers, Ministries, and our frontline staff for the support to the community response efforts. Also, the continuous guidance from Central Bank of Oman, Capital Market Authority, and the Supreme Committee, helped the Bank's leadership team to act quickly and effectively to the gravity of the situation by meeting customer needs and supporting the delivery of the Governments' stimulus and relief initiatives.

Amidst this challenging environment, Bank Nizwa's strength was never more evident. Guided by our purpose to help clients thrive and communities prosper, the Bank led with a heightened sense of focus on delivering long-term value for our employees, clients, communities, and shareholders. In response to the significant economic shocks and market volatility resulting from the pandemic, the Bank contributed OMR 600 thousand as a part of our Corporate Social Responsibility and supported the community response efforts. This is additional to the relief we have given to our customers most affected by the pandemic.

The year 2020 has been extremely challenging for many of our customers, the economy, and the community due to the coronavirus pandemic. Therefore, we have been determined to provide financial relief to households, keep working capital and credit flowing for businesses according to the prudent guidance of Central Bank of Oman, deliver performance for our shareholders, and facilitate economic activity and financial stability more broadly.

Throughout the year, the Bank's leadership team has continued to deliver on our strategic priorities, focusing on becoming a simpler, better, and efficient bank. We have made substantial progress on achieving our target to clear all accumulated losses with a strong focus on operational excellence driving growth in our core banking businesses.

The strong financial results we achieved are a testament to the ambition we have as the First Sharia-compliant bank in the Sultanate and our adherence to a strong and clear strategy, and our philosophy to go beyond excellence. The most encouraging developments in the year include the Bank's record net profit, which surpassed market expectation and our recognition as 'Most Innovative Islamic Bank' at the International Finance Magazine Awards; ranked as 'One of the World's Best Islamic Financial Institutions' at the Global Finance 2020 Islamic Finance Awards; and awarded the coveted title of 'Best Performing Company (Large Cap)' at the Alam Al Iktisaad Awards 2020. The Bank was also awarded the Most trusted Islamic Bank in Oman at the Signature Luxury 100 awards.

These achievements reflect our position as the largest and fastest-growing full-fledged Islamic Bank in the Sultanate. In this message, I am pleased to highlight the progress we made in 2020 towards achieving our strategic ambitions and to set out our plans for 2021 and onwards.

During the year, the Bank devised a five-year strategy, called 'strategy 2025', which focuses on asset quality, financial performance, technological advancement, market share, team and culture. We want to be a stronger Islamic Bank with a higher market share in the next five years. The Bank is already embarked upon the next phase of growth to deliver more value to our customers and stakeholders at the same time.

We remain committed to supporting our economy and will work with affected customers to ensure that viable solutions are provided to cushion the impact and improve. We will continue to demonstrate a resilient and robust business model, built upon a strategy aiming to deliver a solid financial performance across businesses through a customer-centric approach, a stable and conservative liability base, a culture of service excellence and efficiency, diligent risk management and highly talented employees.

FINANCIAL PERFORMANCE

Our financial results this year demonstrate the underlying strengths of our business, as well as the impacts of the coronavirus pandemic. The business performed relatively well in 2020, with an intense focus on operational excellence driving growth in our core banking businesses. Net profit after tax was, however, lesser than the planned growth due to the OMR 6.7 Million (2019: 2.6 Million) provisions taken for expected impact losses, including the impact of COVID-19 on our customers and the economy and consequent credit losses.

Prudent balance sheet management underpinned the Bank's resilient funding and liquidity positions. Strong credit discipline resulted in a net profit for the year of 11 Million Omani Rials, compared to 10 Million Omani Rials in 2019, registering a growth of 9% year-on-year, which helped to clear out losses accumulated since inception and for the first time, the Bank will be issuing cash dividend to the shareholders. An overview of the results of 2020 reveals that we have achieved remarkable growth rates in all the financial indicators. The total assets rose by 17%, reaching 1.2 Billion Omani Rials, the total portfolio of financing grew by 19% to reach 1.03 Billion Rials Omani, total customers' deposits rose by 16%, reaching 925 Million Rials Omani, and the total shareholders' equity grew by 8% to reach 159 Million Omani Rials.

This results from executing our 2020 ambition, harnessing our financial expertise and strength to build value, and our ability to adapt to the economic realities, including the competitive environment in which we operate. The whole is underpinned by strong governance practices while focusing on our commitment to provide unsurpassed customer experience and adhering to the core values that formed our institution.

FUTURE OUTLOOK

Despite a return to GDP growth in 2021, the global economy will remain in a weak position as the pandemic proves hard to contain. Real GDP growth in developed markets largely exceeded expectations in Q4-2020, indicating that economies are getting better at coping with the stresses induced by the COVID-19 pandemic crisis. Similar is the situation in Oman, given the speed and systematic approach with which governments implement vaccination programs, the reforms government is introducing, the strategic policy initiatives and the measures taken will support the recovery from the effects of the pandemic on economic activity and the details given below gives our opinion that the Country is on the path of the development and prosperity and Bank Nizwa is ready to play its crucial role in the national agenda.

With the start of the year, oil markets appear to be in strong shape. Inventories are falling, and demand indicators for many reasons are pointing upward, albeit modestly. Higher oil prices and significant progress with COVID-19 vaccine rollouts supports the outlook for the GCC economies this year is brighter. However, budget deficits are likely to remain substantial, limiting the scope for additional governmental fiscal stimulus. It is also expected that the region will go to more debt issuance this year, despite of the relatively higher rates scenario globally.

Despite the challenges resulting from COVID-19, Oman is set to embark upon a development program to shift the economy to a more private sector footing by developing small and medium-sized enterprises, public-private partnerships (PPPs) and improving the investment climate as part of Oman Vision 2040. Short-term challenge will be overcome in the medium-and long-term, as the government initiatives and reforms starts yielding results which will help mitigating vulnerabilities and alleviating pressure on public finances.

The Government's efforts to bolster the fiscal position as per the National Program for Fiscal Balance (Tawazun) encouraged structural reforms to boost private sector-led growth, increased economic diversification, created jobs and fostered inclusive growth. The positive recent fiscal and Government initiative providing support to the economy will increase demand for credit. The planned execution of Oman Vision 2040 is expected to raise non-hydrocarbon growth over the medium term gradually.

The projections for 2021 and the six years to follow carry a lot of logical and thoughtful optimism, and the structural reforms the Omani economy is going through will make it more competitive and resilient to absorb economic shocks.. , with an improvement in revenues, the economy is expected to recover from the situation. While numerous sectors expect growth, such as manufacturing, healthcare, mining, fisheries, and trade, the banking sector will continue to capitalize on its key competitive advantages to show further resilience in a favorable economic conditions backdrop.

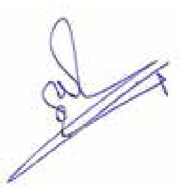
Challenges will always persist in 2021 and in the future; however, as demonstrated in 2020, Bank Nizwa has the strength to adapt and will remain focused on delivering for clients, employees, communities, and shareholders. We are committed to spearheading Islamic finance's growth and solidifying our leadership in the sector, leading the market share towards new heights. We would like to inform our shareholders that the plan for capital raising will help shape the Bank for the future and generate more organic earnings. Indeed, when combined with the Bank's prudent risk management, diversified business mix and proven ability to steer through significant headwinds, the Board remain confident in Bank's ambitious growth strategy.

We are fully confident that the Bank is on the right track to capture future opportunities, support sustainable growth, and maximize shareholder value.

ACKNOWLEDGMENT

On behalf of the Board of Directors, Executive Management and staff, I would like to express our sincere gratitude to His Majesty Sultan Haitham bin Tarik Al Said, for his foresight and visionary leadership that continues to advance the nation and all sectors. Special thanks are also extended to the Central Bank of Oman, and the Capital Market Authority for their invaluable guidance and support.

I also want to thank our shareholders for their ongoing support; our customers for the opportunity to serve them every day; and our employees for their continued hard work and commitment to providing legendary service to our customers. We look forward to continuing to earn and sustain your trust in 2021.



Khalid bin Abdullah bin Ali Al Khalili
Chairman

KPMG

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Sultanate of Oman
Tel. +968 24 749600, www.kpmg.com/om

REPORT OF FACTUAL FINDINGS TO THE SHAREHOLDERS OF BANK NIZWA SAOG

Agreed upon procedures on Code of Corporate Governance (the "Code") to assist in compliance of requirements prescribed in the Capital Market Authority ("CMA") Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code")

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' Corporate Governance Report of Bank Nizwa SAOG (the " Bank") as at and for the year ended 31 December 2020 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code").

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Bank's compliance with the Code as issued by the CMA and are summarized as follows:

1) We checked that the Corporate Governance Report (the "Report") issued by the Board of Directors included as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3; and

2) We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2020.

   With respect to procedure 2 above, we inquired from and obtained written representation from management and those charged with governance on completeness of information related to non-compliances with the Code for the year ended 31 December 2020.

KPMG

We report our findings below:

As a result of performing the above procedures, we have no exceptions to report.

The above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements respectively and consequently, we do not express any assurance on the Report. Had we performed additional procedures, or had we performed an audit or a review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the corporate governance report of Bank Nizwa SAOG to be included in its annual report for the year ended 31 December 2020 and does not extend to any financial statements of Bank Nizwa SAOG, taken as a whole.

KPMG

11 March 2021

KPMG LLC

KPMG
KPMG LLC
P O Box 641, PC 112
Shatti Al Qurum
Sultanate of Oman
CR.No: 1358131

CORPORATE GOVERNANCE REPORT

The Board of Directors of Bank Nizwa SAOG ("Bank Nizwa" or the "Bank") is committed to the highest standards of Corporate Governance as set out in the letter and spirit of the Code of Corporate Governance laid out by the Capital Market Authority (CMA) and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (CBO).

Corporate Governance is the system of rules, practices and processes by which the Bank is directed and controlled. Corporate governance essentially involves balancing the interests of all stakeholders in the Bank - these include its shareholders, management, customers, suppliers, financiers, the government and the community. Since corporate governance also provides the framework for attaining the Bank's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

The CMA Code of Corporate Governance for Public Listed Companies and the CBO circular BM 932, Corporate Governance of Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Bank Nizwa complies with all of their provisions. The CMA Code of Corporate Governance can be found at the following website: www.cma.gov.om. Corporate Governance has also been defined more narrowly as the relationship of an entity to its shareholders; or more broadly as its relationship to society.

Board of Directors

The board of Directors (the "Board") of the Bank were elected by the Shareholders during the Annual General Assembly that took place on March 28, 2019 for a period of three years.

The Board is responsible for overseeing the Bank's management and business affairs and makes all major policy decisions for the Bank.

The Board is responsible for approving the financial statements of the Bank, and the overall compliance of the Bank with the applicable rules and regulations. The Board continuously protects and enhances shareholders' value by looking after the Bank's overall corporate governance. The Board members have acknowledged that they shall, during the term of the Board, remains compliant with the applicable rules and regulations, and they shall inform the Bank of any changes in their status which might affect their category or status. The Bank follows Commercial Company law where the process of nomination of directors is stipulated clearly. The Bank's Board's principal responsibilities are as follows:

- Appointing key executives with integrity, technical and managerial competence and appropriate experience, and deciding their compensation package;
- Overseeing succession planning and replacing key executives when necessary;
- Reviewing key executive and Board remuneration packages and ensuring such packages are consistent with the Bank's corporate values and strategy;
- Ensuring a formal and transparent Board nomination process;
- Effectively monitoring and evaluating management's performance in implementing agreed strategy and business plans, and ensuring that appropriate resources are available;
- Approving budgets, reviewing performance against those budgets and deciding on the future strategies and plans;
- Meeting regularly with senior management and respective Board Committees to establish and approve policies and review key developments;
- Identifying, understanding and measuring the significant risks to which the Bank is exposed in its business activities; and
- Board members shall independently assess and question the policies, processes and procedures of the Bank, with the intent to identify and initiate management action on issues requiring improvement (i.e. to act as checks and balances on management). Procedures may be defined to appoint advisors or external experts to assist Board members in effectively discharging their responsibilities.
- Approve financing transactions as per Delegation of Authority Matrix.

Bank Nizwa is represented by eight Directors, where all of them are non-executive Directors.

Composition & Classification of the Board			
Name of Director	Category	Represents	No. of Other Directorship
Sheikh Khalid Abdullah Ali Al Khalili	Non- Executive	Aflag Investments	2
Mr. Musabah Saif Musabah Al Mutairy	Non-Executive	Non-Representative	2
Sayyid Amjad Mohammed Ahmed Al Busaidi	Non- Executive	Non-Representative	1
Mr. Hussain Yousef Dawood Al Shalwani	Non-Executive	Non-Representative	0
Sheikh Saif Hilal Nasser Al Mawali	Non- Executive	Non-Representative	0
Mr. Sami Yahya Hamed Al Dughaishi	Non- Executive	Civil Services Pension Fund	1
Mr. Ishaq Zayed Khalifa Al Mawali	Non- Executive	PASI	2
Sheikh Majid Ali Majid Al Mamri	Non-Executive	Non-Representative	0

Profile of Current Board of Directors

Sheikh Khalid Abdullah Ali Al Khalili - Chairman

Sheikh Khalid Al Khalili has over 21 years of experience in various fields. He is a graduate in Civil Engineering from Florida Institute of Technology, USA. He is the Chairman of Aflag Group, a diverse group of operating companies. In the past, he has held various senior management positions, involving varied business disciplines which include finance, project management and real estate development.

Sheikh Khalid is the Deputy Chairman of the board of directors in OMNIVEST SAOG and member of the Board's Executive Committee and Nomination & Remuneration Committee. In addition, he is the Chairman of the board of Al Ahlia Insurance Co. SAOG. Moreover, Sheikh Khalid is a member of the Board of Omantel SAOG and its Investment and Strategy Committee.

Mr. Musabah Saif Musabah Al Mutairy – Vice Chairman

Mr. Almutairy has 27 years of experience in the areas of investment, finance, and accounting. Mr. Al Mutairi is a Member of several Boards, including Member of the Investment Committee of Royal Guard of Oman Pension Fund, a Member of the Board at Hotels Management Co. International, Oman Ammunition co, Khaleeji Commercial Bank, Takaful Oman, Oman National Investments Development Company, United GCC fund and Bank Muscat Money Fund.

Mr. Almutairy holds a bachelor's degree in Accounting and a Master of Business Administration in Finance. In addition, he holds several internationally recognized accounting qualifications.

Sayyid Amjad Mohammed Ahmed Al Busaidi – Member

Sayyid Amjad is currently the Assistant Head of Admin and Finance at the Diwan of Royal Court. He has served as the Executive President at the Diwan of Royal Court Pension Funds, and as Deputy Director General at the Directorate General of Financial Affairs. His list of memberships include coveted positions such as Chairman of Oman Qatari Telecommunications Company (Ooredoo). He holds a Masters of Business Administration degree from Southern Cross University, Australia.

Mr. Hussain Yousef Dawood Al Shalwani - Member

Mr. Hussain was previously a board member at Bank Sohar and played an active role its set up. Moreover, he was also founding committee member of Al Tawasul Financial and Investment Services. Currently, he is serving as director on the Board of SalamAir, National Aluminum Products Company and Bank Nizwa. Mr. Hussain has earned a Bachelor's degree with over 35 years of experience, holding various posts related to finance and investment in prestigious organizations like Al Ghadeer Investments, United Securities, Al Mawarid Securities, Qurum Investments etc.

Sheikh Saif Hilal Nasser Al Mawali – Member

Sheikh Saif has worked for the Sultanate of Oman Ministry of Commerce and Industry in the Directorate General of Organizations and Foreign Relations. He has served as a Senior Customs Clearance Officer at Sultan Qaboos Sea Port as well as the Customs Liaison Officer for the regional office for MENA and Near East Region. As a key member of the Free Trade Agreement negotiations between Oman and the United States of America, Sheikh Saif represented Oman's interest in this important agreement, both at home and abroad. Sheikh al Mawali is an accredited expert for the MERCATOR program which assists governments in implementation of the WTO Trade Facilitation Agreement and strategic planning. He has held other key positions within the burgeoning logistics sector in Oman including as an associate of the Tanfeedh Program.

Sheikh Al Mawali's experience also spans across the private sector as he has successfully overseen the development of various real estate and cultural renewal projects in Oman and the region. He is a recipient of a Bachelor's degree in Economics from Arkansas University in the United States of America.

Mr. Sami Yahya Hamed Al Dughaishi – Member

Mr. Sami holds prestigious masters in Financial Risk Management (FRM) from University of Glasgow, UK. He is currently serving as a Director of Pension Benefits Department in Civil Services Employee Pension fund. Other than Bank Nizwa, he is currently serving as a director on the board of United Power Company SAOG. Moreover, has served as director on the board of Oman Housing Bank from 2011 to 2014 and Ubar Hotels and Resorts from 2013 to 2019.

Mr. Ishaq Zayed Khalifa Al Mawali – Member

Mr. Ishaq is serving as director of Shell Oman Marketing SAOG and National Gas SAOG, along with Bank Nizwa. He has Masters in Finance from Melbourne University, Australia and around 22 years of diverse experience in funds and asset management companies, including State General Reserve Fund (SGRF), Public Authority for Social Insurance (PASI) and Oman Airport Management Company (OAMC). Currently, he is serving as Head of Asset Management- International in PASI.

Sheikh Majid Ali Majid Al Mamri – Member

Sheikh Majid is currently leading Operations of Al Ghadeer Investments as General Manager. He has a vast experience of more than 11 years in banking, construction, managing real estate and properties, along with exposure of strategic analysis and decision making.

Meetings and Remuneration of the Board

The Board meets regularly, to discharge its duties, monitor the executive management, and exercise necessary control over the Bank's functioning. The Board conducts its business in formal meetings. In Board meetings, the "majority" is computed as the absolute majority of the Directors present in person. During the financial year ended December 31, 2020, the board has conducted 6 meetings.

The attendance schedule of the meetings conducted during this year, and each Board member's attendance is as per the following:

Board Meeting Attendance for the Year 2020

Name of Director	28 Jan 2020	27 Feb 2020	05 May 2020	29 Jul 2020	28 Oct 2020	17 Dec 2020
Sheikh Khalid Abdullah Ali Al-Khalili	✓	✓	✓	✓	✓	✓
Mr. Musabah Saif Musabah Al-Mutairi	✓	✓	✓	✓	✓	✓
Sayyid Amjad Mohammed Ahmed Al-Busaidi	✓	✓	✓	✓	✓	✓
Mr. Hussain Yousuf Dawood Al-Shalwani	✓	✓	✓	✓	✓	✓
Sheikh Saif Hilal Nasser Al-Mawali	✓	✓	✓	✓	✓	✓
Mr. Sami Yahya Hamed Al Dughaishi	✓	✓	✓	✓	✓	✓
Mr. Ishaq Zayed Khalifa Al Mawali	✓	✓	✓	✓	✓	✓
Sheikh Majid Ali Majid Al Mamri	✓	✓	✓	✓	✓	✓

Board of Director has received an amount of RO 73,900 as sitting fees for the year ended December 31, 2020, which includes the Board sub-Committees, where the sitting fees per each Director did not exceed RO 10,000 as per the guidelines of CMA. As all members of the Board are Non-Executive Directors; no fixed remuneration or performance linked incentives are applicable.

The total remuneration received by the top 5 Executives in Management during the year ended December 31, 2020 is RO 1,025,749.

Committees of the Board

The Board of Directors has created various sub-committees for specific purposes with the clearly defined term of reference and responsibilities. The committees' mandate is to ensure focused and specialized attention to specific issues related to the Bank's governance. The various committees of the Board together with the Internal Audit, Risk and Compliance Department form an important tool in the process of corporate governance.

Board Executive Committee

The members of the Board Executive Committee are playing an increasingly important role to ensure that the financing exposures and investments conform to the respective policies of the Bank and to ensure implementation of the Business Strategy, Policies and Procedures of the Bank.

Executive Committee	
Name of Members	No. of Meetings Attended
Sheikh Khalid Abdullah Ali Al Khalili - Chairman	5
Sheikh Saif Hilal Nasser Al Mawali - Member	5
Sheikh Majid Ali Majid Al Mamri - Member	5
Mr. Sami Yahya Hamed Al Dughaishi - Member	5
Total Number of Meeting Held During the year:	**5**

Board Audit Committee

The main functions of the Audit Committee are to assist the Board in discharging its oversight responsibilities for the financial reporting process, reviewing the effectiveness of the Bank's internal financial control including accounting policies and changes thereto and review of annual and quarterly financial statements prior to publication in order to ensure their balance, transparency and integrity.

The Audit Committee also reviews the effectiveness of the internal audit function; the independent external audit process including recommending the appointment and assessing the performance of the external auditors as well as specifying their fees and the Bank's process for monitoring compliance with local laws and regulations affecting financial reporting.

Audit Committee	
Name of Members	No. of Meetings Attended
Sayyid Amjad Al Busaidi - Chairman	4
Mr. Hussain Al Shalwani - Member	4
Mr. Musabah bin Saif Al Mutairy - Member	4
Total Number of Meeting Held During the year:	**4**

Board Remuneration & Nomination Committee

The role of the Board Remuneration & Nomination Committee is to review and approve the selection criteria and appointment procedures for the Chief Executive Officer, Senior Management and any other key position as may be determined by the Board of Directors or the applicable laws, rules and regulations. The Committee also ensures application of the remuneration framework for the Chief Executive Officer, Senior Management and any other key position as may be determined by the Board of Directors or the applicable laws, rules and regulations.

Remuneration & Nomination Committee	
Name of Members	No. of Meetings Attended
Sheikh Saif Hilal Nasser Al Mawali - Chairman	5
Sheikh Khalid Bin Abdullah Bin Ali Al Khalili– Member	4
Mr. Ishaq Zayed Khalifa Al Mawali – Member	4
Mr. Sami Yahya Hamed Al Dughaishi – Member	4
Total Number of Meeting Held During the year:	**5**

Board Governance, Risk and Compliance Committee

The Board Governance, Risk and Compliance Committee's (BGRCC) primary function is to assist the Bank's Board of Directors in fulfilling its governance, compliance and risk management responsibilities as defined by applicable laws, Central Bank of Oman regulations, Capital Market Authority and the Bank's internal regulations. As such, the BGRCC exercises the authority and power delegated to it by the Board. The BGRCC's function is one of oversight, recognizing that Top Management is responsible for executing the Bank's risk management policies. BGRCC will neither be involved in the day-to-day management of risk nor in assessing / approving single transactions regardless of amount or risk level.

Governance, Risk and Compliance Committee	
Name of Members	**No. of Meetings Attended**
Mr. Musabah bin Saif Al Mutairy - Chairman	4
Mr. Hussain Yousef Dawood Al Shalwani – Member	4
Mr. Ishaq Zayed Khalifa Al Mawali– Member	4
Total Number of Meeting Held During the year:	4

Major Shareholders

Bank Nizwa incorporated with a capital of RO 150 million. The Bank's shares are listed on the Muscat Securities Market. The Shareholders, holding more than 5% as on December 31, 2020 are tabulated hereunder:

Major Shareholders	%
Aflag Investments	12.42267
Civil Employees' Pension Fund	9.22654
Al Ghadeer Investment	8
Public Authority For Social Insurance	7.32622
Diwan of Royal Court Pension Fund	5.09319
Ubar Capital SAOC	5.02333
Total	**47.09195**

Bank Nizwa Share Price Movements

DATE	Bank Nizwa Share Performance			Average MSM 30 Index	Financial Sector Performance at MSM		
	HIGH	LOW	CLOSE		HIGH	LOW	CLOSE
Jan-20	0.1010	0.1000	0.100	4079.2900	6533.2400	6514.7600	6517.5100
Feb-20	0.1040	0.1000	0.102	4130.9100	6523.4500	6507.3300	6518.6000
Mar-20	0.0910	0.0900	0.090	3448.2900	5518.7600	5442.5400	5442.5400
Apr-20	0.0910	0.0910	0.091	3539.4600	5623.6200	5569.2600	5569.2600
May-20	0.0990	0.0920	0.095	3544.5800	5580.6900	5532.2100	5577.4600
Jun-20	0.0960	0.0950	0.095	3516.0000	5616.5500	5586.2700	5586.2700
Jul-20	0.0980	0.0970	0.097	3568.1000	5707.4200	5690.7000	5706.3900
Aug-20	0.1020	0.1000	0.101	3771.8900	6150.9800	6088.4600	6125.9800
Sep-20	0.1020	0.1000	0.101	3614.6400	5861.1900	5831.2100	5833.2400
Oct-20	0.0990	0.0990	0.099	3557.7700	5627.5900	5618.2800	5621.7700
Nov-20	0.0990	0.0980	0.098	3643.5200	5720.0000	5701.3700	5709.4800
Dec-20	0.0960	0.0950	0.096	3658.7700	5655.0200	5635.4200	5651.0800

Source: Muscat Security Market

Communication with Shareholders and Investors

The Management Discussion and Analysis Report forms part of the annual report besides detailed disclosures in accordance with regulatory requirements and international standards. The Bank publishes its interim financial statements on quarterly basis and also hosts these and other relevant information at its website (www.banknizwa.om) and Muscat Securities Market (MSM) website (www.msm.gov.om). The quarterly results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders from the Bank. Bank's official news releases are displayed on the Bank's website.

Compliance with Regulatory Requirements

During the calendar year of 2020, the Central Bank of Oman conducted on-site examination of the Bank. However, it did not find any major violation(s) and no monetary penalties were levied on the bank.

Following is the detail of penalties imposed by CBO and CMA over three year's period:

Regulator(s)	2018	2019	2020
Capital Market Authority	NIL	NIL	NIL
Central Bank of Oman	RO 8,000	NIL	NIL

Dividend Policy

The Bank's dividends policy complies with the CBO and Capital Markets Authority guidelines. The Bank follows a conservative dividend policy and shall recommend the distribution of the dividends to the shareholders after due consideration of the regulatory guidelines, the future growth expectations, AGM approval and other factors.

Sharia Supervisory Board

The current SSB of the bank include the following scholars:

1. Sheikh Dr. Mohammad bin Rashid Al Gharbi (Chairman)
2. Sheikh Ibrahim bin Nasser Al Sawwafi
3. Dr. Aznan Hasan

Sheikh Dr. Mohammad Al Gharbi and Sheikh Ibrahim Al Sawwafi were elected in the Sharia Supervisory Board (SSB) by the Annual General Meeting on March 28, 2019 for a period of 3 years, whereas Dr. Aznan Hasan has been appointed as SSB member in December 2020 by the Board of Directors, subject to ratification in the next Annual General Meeting. Dr. Aznan has replaced late Sheikh Dr. Abdul-Sattar Abdul-Kareem Abu-Ghuddah, who served as an SSB member till October, 2020.

The main roles and responsibilities of the SSB

- Sharia Compliance Department (SCD) is an element of the Sharia Governance vis-à-vis Corporate Governance structure as established in Bank Nizwa and approved by the Bank's Sharia Supervisory Board (SSB). An effective Sharia policy enhances the diligent supervision of the Board of Directors (BOD), the SSB and the Management of the Bank to ensure that the operations and business activities of the Bank remain consistent with Sharia principles and its requirements.

- To ensure Sharia compliance in all aspects of Islamic banking activities of the Bank, the Central Bank of Oman (CBO) has mandated several provisions in relation to the establishment of a SSB and an internal SCD in an Islamic Bank. The SSB is an independent Sharia Supervisory Body which plays a vital role in providing Sharia views and rulings pertaining to Islamic finance and investment activities of the Bank. The SSB also acts as a monitoring body which performs a supervisory role through the Sharia Compliance Department to maintain Sharia compliance in the operations and business activities of the Bank.

- At the institutional level, SCD acts as an intermediary between the SSB and the Management team of the Bank. The SCD together with the SSB has the role to provide Sharia resolutions and guidelines to the Management who shall ensure that all activities of the Bank are in compliance with the Sharia rules and principles, in accordance with the guidelines laid down by Islamic Banking Regulatory Framework issued by the CBO. The accountability to ensure Sharia compliance as well as the implementation of SSB Sharia rulings remain with the BOD and the Management of the Bank.

- SCD reports functionally directly to SSB and reports in parallel to CEO with respect to administrative issues. SSB through SCD provides copies of its Fatwa / Sharia decisions and resolutions to Board of Directors and CEO because management is responsible to assure that Sharia resolutions are executed in the transactions and all products and services of the bank. SSB reports its findings directly to the general assembly of shareholders at the end of each year.

- Sharia Compliance Department performs its functions based on the Sharia guidelines provided by CBO in the IBRF, and by Sharia rulings and resolutions issued by SSB, as well as the Sharia Standards issued by AAOIFI. To ensure Sharia compliance of transactions, SCD consistently conducts Sharia review before execution of transactions and Sharia audit after execution. Sharia review and audit encompasses each type of transaction across business lines, the relevant documentation and execution procedures. The overall Sharia Compliance activities are reported in the monthly report which is sent to CEO and the same report is provided to the SSB on its quarterly meeting.

- Sharia Audit unit executes continuous audit for transactions of all departments. Its observations and findings are reported by Sharia Audit report to SSB which is also conveyed and discussed with Management, with documentation of Management responses in addition to recommending action plan for each observation.

- To ensure Sharia compliance in execution, all transactions are executed according to Standard Operating Procedures prepared by the Operations Department and approved by the concerned department heads including Sharia. Sharia audit uses check lists as per SSB Sharia guidelines to meet Sharia requirement and ensure that the SOPs are adhered to during execution.

Schedule of attendance for Sharia Supervisory Board members for the year 2020:

Name of Director	Position	23 Jan-2020	18 Aug 2020	29 Dec 2020
Dr. Abdul Sattar Abou Ghuddah	Ex-Chairman	X	✓	
Sheikh Mohamad Al-Gharbi	Chairman	✓	✓	✓
Sheikh Ibrahim Al Sawwafi	Member	✓	✓	✓
Dr. Aznan Hasan	Member			✓

Details of attendance in Sharia executive committee meeting held during the year 2020:

Sharia Executive Committee	
Name of Members	**No. of Meetings Attended**
Sheikh Dr. Mohamad Al-Gharbi	8
Sheikh Ibrahim Al Sawafi	8
Total Number of Meeting Held During the year:	**8**

Sharia Supervisory Board has received an amount of RO 54,400 as sitting fees for the year ended December 31, 2020, which included the SSB sub-Committee.

Details of payments done for Sharia Supervisory Board and Sharia Executive Committee during the year 2020 are as following:

No	Member	Total
1	Dr. Abdul Sattar Abou Ghuddah	RO 12,500
2	Sheikh Dr. Mohamad Al-Gharbi	RO 20,700
3	Sheikh Ibrahim Al Sawafi	RO 20,700
4	Dr. Aznan Hasan	RO 500
5	**Total**	**RO 54,400**

Sharia Supervisory Board Members Profile

Late Sheikh Dr. Abdul-Sattar Abdul-Kareem Abu-Ghuddah

Dr. Abdul Sattar Abdul Kareem Abou Ghuddah was the Chairman of the Bank Nizwa Sharia Supervisory Board till October 23, 2020, when he passed away. He was an esteemed personality in Islamic Banking and author of several books on Islamic jurisprudence and Fatwa of modern financial transactions and other specialist Islamic subjects.

He was an active member of Islamic Fiqh Academy evolving from the Organization of Islamic Assembly in Jeddah, KSA, and a member of the Sharia Supervisory Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain. He was Chairman and a member of the Sharia Supervisory Boards of a number of Islamic Banks and institutions in the region including the Sharia Supervisory Board of the Central Bank in Bahrain, and Dow Jones index, USA. Dr. Abu-Ghuddah also worked as an Expert and Reporter for the Islamic Fiqh Encyclopedia, Ministry of Awqaf & Islamic Affairs, Kuwait.

Dr. Abou Ghuddah held Bachelor degrees in Law and Sharia from the University of Damascus, and two Master's Degrees in Sharia and Hadith and a PhD degree in Comparative Islamic Jurisprudence from Al-Azhar University in Egypt.

SHEIKH DR. Mohammed Bin Rashed Al-Gharbi (Chairman)

Sheikh Mohammad bin Rashid Al-Gharbi has been a member of the Sharia Supervisory Board at Bank Nizwa since July 2012 and has been now entrusted as the Chairman of the SSB Board of the Bank.

Sheikh Al-Gharbi is currently Assistant Professor in the Department of Islamic Sciences at Sultan Qaboos University. He is a published academic with an extensive research portfolio, based upon his contribution and attendance of seminars and conference proceedings across many countries. In addition to his written volumes, Sheikh Al-Gharbi has delivered his research into Sharia throughout numerous academic papers on financial transactions within Islamic jurisprudence.

Sheikh Al-Gharbi holds several degrees, including a Bachelor's from the Sharia Justice Institute in Oman, a Master's degree from Jordan University and a PhD within the field of Islamic Sciences from Zaytouna University in Tunisia.

SHEIKH Ibrahim Bin Nasser Al-Sawwafi (Member)

Sheikh Ibrahim Bin Nasser Al -Sawafi joined Bank Nizwa as a member of the Sharia Supervisory Board in July 2012. In his capacity, Sheikh Al-Sawafi also serves as the Fatwa Trustee for the Mufti of Oman and a Member of the Committee for Endowments and Zakat at the Ministry of Endowment and Religious Affairs.

As an eminent scholar, he contributes to various radio and television programs presenting Islamic issues and pens for several newspaper columns and articles. He has written more than twenty books and organized training sessions on various Islamic topics while regularly attending conferences on areas such as Islamic Finance, Takaful, Sukuk, Corporate Governance, Islamic Jurisprudence to name a few.

Sheikh Al-Sawafi holds a degree of high judicial license from the Sharia Justice Institute, graduating with distinction, and is a prominent professional Sharia Auditor, certified by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Dr. Aznan Hasan (Member)

Dr. Aznan has joined the Sharia Supervisory Board of Bank Nizwa in December, 2020. He is an Associate Professor in Shariah at Institute of Islamic Banking and Finance (IIiBF), IIUM. He is currently the President, Association of Shariah Advisors in Islamic Finance (ASAS) He is also the Deputy Chairman, Shariah Advisory Council, Securities Commission and Deputy Chairman, Shariah Advisory Committee, Employee Provident Fund (EPF). He is also a member, Shariah Advisory Council, AAOIFI, Bahrain and Higher Shariah Authority, Central Bank of UAE. He also serves as a member of Board of Directors, Maybank Islamic Berhad. Dr Aznan Hasan received his first Degree in Shariah from University of al-Azhar (1994). He then successfully completed his Master degree in Shariah from Cairo University with distinction (mumtaz) (1998) and his thesis was recommended for publication. He then obtained his Ph.D from University of Wales, Lampeter, United Kingdom (2003). Dr Aznan has conducted and published more than 50 researches and presented more than 100 presentations.

Profile of Management Team:

Mr. Khalid Jamal Al Kayed, Chief Executive Officer

Khalid Al Kayed, Chief Executive Officer of Bank Nizwa, is responsible for overall leadership and effective management of the Bank, setting direction and driving total performance consistent with the interests of shareholders, employees, and other stakeholders. He oversees all aspects of the bank's business segments in line with Islamic finance principles including its progressive Shari'a-compliant portfolio of products and services.

Under his tenure, Al Kayed steered the bank to a new era, positioning Bank Nizwa as a strong, innovative, and relationship-oriented sharia compliant financial institution with the largest market share as a full-fledged Islamic bank. He leads the management team to further build the Bank Nizwa brand and its corporate and retail customers' portfolio across various industries. He is also leading the bank's ongoing and new initiatives and programs to raise awareness on the benefits of Islamic finance to the wider public across Oman. Because of his services and contribution towards the growth and development of the industry, he was recognized as 'Islamic Banker of Year' at the 7th Global Islamic Finance Awards 2018.

A financial industry veteran with over 28 years under his belt, Al Kayed is associated with Bank Nizwa since its inception. Prior to joining the bank, Al Kayed held various posts in a host of well-respected financial institutions including Deputy Chief Executive Officer & Chief Financial Officer at Jordan Dubai Islamic Bank and Chief Financial Officer at Standard Chartered Bank Jordan. His expertise ranges from banking management, financial control, accounting, risk management, and asset liability among other fields.

Al Kayed holds Masters in International Accounting and Finance from Liverpool University. He is also an alumnus of Columbia Business School from where he has completed executive management program. In addition to this, he is a Certified Management Accountant and Certified Financial Manager from Institute of Management Accountants.

Mr. R. Narasimhan, GM Wholesale Banking

Mr. Narasimhan is currently serving as General Manager Wholesale Banking at Bank Nizwa. His experience spans over four decades in banking and financial services industry, including but not limited to Corporate, Retail, Treasury & Investments, SME Business and Project Financing exposure, with geographical diversity in Asian region. He has held senior positions at many banks previously, including Bank Sohar. The bank has experienced a sizeable growth in Asset base, as well as human resource development under his leadership. Mr. Narasimhan has Masters in Science and PG Diploma in Banking. He participates in local and international seminars as speaker and panelist on invitation. He has also authored on a few occasions chapters on Islamic banking in CBFS publications.

Mr. Nasser Said Al Lamki, GM Internal Audit
has over 24 years of banking experience. Prior to joining Bank Nizwa, he worked in reputed local and international banks in Oman and Saudi Arabia. During his career, he led pragmatic and advanced audit function, while developing and maintaining strong working relationships at both strategic and operational levels, promoting strong risk management and raising the profile of audit. Mr. Lamki was Vice President of Audit in one of the leading Islamic Bank in Saudi Arabia. He holds an MBA in Leadership and Sustainability from University of Cumbria, UK.

Mr. Mohamed Fida Hussain, DGM - Chief Risk Officer
He has as MS in Engineering from the USA and an MBA from Sultan Qaboos University. Has over all 26 years of experience in the banking industry and 13 years in risk management across areas of Risk Management Framework, including the Risk Mitigation strategies for the organization's critical risks, development & communicate Risk Management Policies, Risk Appetite & Limits, and Enterprise-wide Risk Management (ERM). He worked as member of various committees, participated in various task forces concerning banking and development issues. He has also served as part time lecturer at College of Banking and Financial Studies (CBFS).

Mr. Mujahid Said Al Zadjaly, GM IT and Operations - Mr. Mujahid is a strategic, decisive and result oriented leader with over 20 years of professional expertise with an in-depth knowledge in Digital Transformation & Innovation. He is leading the Digital Transformation & Innovation project as a part of banks long term strategic initiative to deliver Bank Nizwa's vision to become the "Digital Bank of Choice" for people of Oman.

Mujahid Al Zadjaly graduated the National CEO Program Cohort 2- 2016 developed under the patronage of the Diwan of Royal Court and delivered by International Institute of Management Development (IMD). He holds Masters in Business Administration from Luton University, UK. Other credentials include General Management Program from Harvard Business School, USA and Diploma in Leadership and Management from Institute of Leadership and Management, UK.

Mr. Arif Al Zaabi, AGM Retail Banking – has over two decades of experience in the banking industry. His experience covers the entire spectrum of Commercial and Retail Banking and in his current role, Mr. Arif is spearheading and catalyzing the Bank's growth in Retail Business. His extensive expertise and experience in the management of Branch Banking, Retail Banking enables him to work cross-functionally with various businesses / support functions in the Bank, to build and deliver a comprehensive suite of products/solutions to our customers in retail segments. Mr. Arif previously held senior positions across different banks. He holds a Master's degree in Business Management from Majan College.

Mr. Salim Rashid Ali Al Maharbi, AGM - Chief Financial Officer - He has 24 years of diversified banking experience ranging from domestic and international banks. He is a Certified Islamic Professional Accountant, Certified Accounting Technician from ACCA UK, holds B.A. He has obtained a leadership certificate in Islamic Finance from a specialized institute from UK with distinction. He possesses expertise in all the applicable financial standards of AAOIFI, IAS, IFRS and local legislations. Prior to joining Bank Nizwa, he was Chief Manager, Commercial and Finance at Bank Sohar. He has varied experience in the field of Financial Reporting, Financial Accounting, Management Accounting, Internal Controls, Business Planning and Performance Management.

Mr. Tariq Mohammed Osman, Head of Legal Department and Board Secretary - He is a veteran in the field of legal and has 38 years of experience working with reputed financial institutions of the region. His major experience is with Dubai Islamic bank – UAE where he served as a legal advisor and lawyer for 12 years of his successful career. He has also served a reputed non-financial corporate where he served 14 years as a legal advisor and Board secretary. He holds a Master's degree on commercial law.

H.H. Sayyida Wisam Jaifer Al Said, Head of Marketing & Communications - With 15 years of experience as a marketing and communications professional. Sayyida Wisam previously headed the corporate affairs department at Oman Oil Marketing Company before joining Bank Nizwa. She has a Bachelor's degree in Corporate Communications from the American University of Paris with a Master's degree in Strategic Marketing from Cardiff University, UK. Sayyida Wisam also holds a specialized certificate in Direct Marketing. Outside her career in Oman, Sayyida Wisam also trained with UNESCO's Public Bureau of Information and the International Chamber of Commerce based in Paris, France.

Dr. Mansour Al Qudah, Head of Sharia - Has over 20 years of experience in the Islamic Banking and Sharia audit. He worked in Jordan Islamic Bank as a Sharia board secretary and Sharia audit manager and in the Saudi-based Al Inma Bank as the Assistant General Manager of Sharia Group as well as section manager of Sharia policies and procedures auditing. Dr. Mansour has a PhD in Islamic Banking and Economics from the University of Yarmouk in Jordan. In addition, he has Professional Diploma in Accounting and Auditing from Arab Academy for Banking and Financial Sciences, Jordan. He is also Certified Islamic Banker (CIB), Certified Islamic Specialist Sharia Auditing (CISSA), Certified Entrepreneurship Consultant, Certified Internal Quality Evaluator and Auditor and Certified Expert in Contract Management and Contractual, Relationships.

Mr. Mohammed Al Hashmi, Head of Compliance - is currently leading Regulatory Compliance, Corporate Governance and Anti-Money Laundering & Counter terrorism Financing functions. Mohammed's professional career spans over 11 years, including six (6) years of handful experience as an External Bank Examiner at Central Bank of Oman. Mohammed holds a Bachelor's degree in Accounting from Sultan Qaboos University. Mr. Mohammed is certified in Governance, Risk and Compliance by International Compliance Association, UK. Moreover, he has obtained multiple specialized international trainings and certifications, including certifications from Federal Deposit Insurance Corporation (FDIC) from the United States on Banks Examination and Financial Analysis and certification in Islamic Banking by Islamic Financial Services Board (IFSB). His portfolio of trainings now also include certification with distinction in Cambridge Leadership Program from University of Cambridge, UK. Moreover, he participated in various session and discussion tables at the local and international levels.

Ms. Haifa Abdul Ali Al Lawatia, Head of Human Resource - With 25 years of total professional experience, she has previously worked in reputed organizations like PDO and Oxy Oman. She has an MBA, BSc, and other professional accounting certifications and has cross posting experience in Houston USA. She joined Bank Nizwa at foundation stage and helped in building HR department from scratch. Her core competencies include Human Resources, Compensations & Benefits, Staffing, and Strategic HR. She has over 17 years of experience in Human resource management and is currently responsible to support and align HR objectives with bank's overall vision, implement HR change initiatives to support the business strategy and continuous improvements in HR management to achieve organizational objectives.

Related Party Transaction

Details of related party transaction have been disclosed in the financial statements without any special rate or treatment for the SSB members.

Internal Control review

The board gives great importance to maintaining a strong control environment and board review has covered all controls including financial, operational, compliance and risk management.

The board has established a management structure that clearly defines roles and responsibility and reporting lines and has approved the policies.

Financial information is prepared using appropriate accounting policies that are consistently applied. Operational procedures and controls have been established to facilitate complete accurate and timely processing to transactions and the safeguarding of assets through policies and procedures manuals, desk performance instructions and other circulars.

Auditors' Profile – KPMG

The KPMG member firm in Oman, along with the UAE member firm, form KPMG Lower Gulf, which consists of 1,300 staff members, including approximately 100 partners and directors. KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. KPMG's Oman office was established in 1975 and provides audit, tax and advisory services to a broad range of domestic and international clients across all sectors of business and the economy.

KPMG billed an amount of RO 46,750/- towards professional services rendered to the Company for the year 2020

Details	Amount
Financial Audit Fees for 2020	RO 45,500
Tax fees	RO 1,250
TOTAL	**RO 46,750**

Declarations

During the period, the board has conducted a review of the effectiveness of the Bank's internal control, policies and procedures; and is satisfied that the Bank's internal control are effective and that appropriate procedures are in place to implement the regulatory and internal requirements.

Further, the Board of Directors confirms that there is no issue on going concern and that the Bank is able to continue its operations during the next financial year.

MANAGEMENT DISCUSSION & ANALYSIS REPORT

For the financial period ended **31st December 2020**

Mr. Khalid Al Kayed
Chief Executive Officer

The Management Discussion and Analysis Report is a detailed overview of Bank Nizwa's business for the financial year covering the period from 1 January 2020 to 31 December 2020.

It focuses on the core segments of the business and discusses prospects and opportunities for years ahead in the context of the prevailing macroeconomic environment and market penetration of Sharia-compliant products and services.

Poised for Growth

In less than eight years, Oman has become the world's 15th largest Islamic banking industry, commanding a 14.5 per cent share in the Sultanate's total banking assets. Bank Nizwa is at the forefront of this remarkable growth of Islamic banking and continues its success journey by achieving impressive financial results. Bank Nizwa recorded the highest growth in net profits in Oman's Banking sector, with a growth 9% despite COVID-19 related challenges.

Bank Nizwa has always strived to be the financial partner of choice for the people and enterprises of Oman. Ever since its inception, the bank has been committed to provide Sharia-compliant innovative financial solutions, with an aim to offer customers a unique banking experience in line with their evolving needs. Demonstrating utmost resilience in all its operations and exhibiting exceptional performance across all its departments, even in the face of unprecedented challenges, Bank Nizwa total assets also grew by 17% to reach RO 1.2billion compared to RO 1.03 billion in the preceding year. Its growing preference amongst customers is reflected in its increasing customer deposit portfolio which increased by 16 per cent to RO 924.2 million against RO 797.1 million on a year-on-year basis. The bank's financing to customers rose by 20 percent to RO 1.03 billion compared to RO 867 million in 2019.

A key contributor to this extraordinary performance amidst tough market conditions is the increased awareness on the benefits of Islamic banking amongst individuals and businesses alike; a responsibility Bank Nizwa has taken upon itself to continue to lead.

As the largest and fastest growing full-fledged Islamic bank in the Sultanate, Bank Nizwa is leading the sector's growth through all the segments i.e. Consumer Banking, Corporate and Wholesale Banking, International Banking, trade finance and treasury, among others. Bank Nizwa's Project Finance and Syndication is a specialized function which has played a significant role in supporting the government's diversification plan as well as Oman's 2040 vision. The function has effectively closed several milestone transactions in the Manufacturing, Utilities, Construction, Retail, Hospitality, Aviation, Logistics, Tourism, Education, Waste Management, Metals & Mining, Medical, and Food sectors.

During the year, the Bank identified key opportunities, critical areas of improvement and subsequent tactical plans that helped retain its leadership position. These conscious and consistent efforts by the bank rightfully manifest its most trusted position within Oman's Islamic banking sector.

Its concerted efforts have put several awards and accolades to its credit. Winning over 30 local, regional and international awards in just over eight years of operation, Bank Nizwa continues to hold the top spot among Oman's Islamic financial institutions.

COUNTRY ECONOMIC & BUSINESS ENVIRONMENT

The global economy was severely impacted by the pandemic related challenges leading to 4.3% contraction in 2020, according to The World Bank. Continue low oil prices and the spread of COVID-19 are the key challenges that impacted the regional economies in the short-run. The Sultanate of Oman's economy experienced a significant impact with lower oil prices and the slowdown in economic activities for a significant part of the year. Oman's gross domestic product (GDP) as result declined compared to the previous year.

However, 2020 was a landmark year for the Sultanate with the launch of Oman Vision 2040 by His Majesty Sultan Haitham Bin Tarik. The Vision 2040 lays down the roadmap for building an innovation based sustainable and diversified economy in the next two decades. The 10th five year plan (2021-2025) envisages achieving an average GDP growth of 3.5% as the first step towards the Vision 2040. The State Budget for 2021 incorporates a number of measures and initiatives that are expected to drive the economy on the recovery path.

With the rollout of COVID-19 vaccination programme at large scale across the globe, The World Bank has forecasted that global economy will expand by 4% in 2021. Oman's economy is also expected to grow at a rate of 2.3% in 2021, as per the Ministry of Economy. With oil prices moving beyond USD 60 a barrel, introduction of aggressive economic reforms and initiatives such as VAT, will help reduce fiscal deficit and will support the economic recovery throughout 2021.

Outlook for the Banking Sector

The banking sector in Oman has been resilient to pandemic related economic challenges. The sector has remained relatively strong with adequate capital and low level of non-performing assets. The credit growth slackened in sync with the economic slowdown, while the credit risk is well-contained.

The Central Bank of Oman is enabling the adoption of new modes of service delivery and technologies to serve the market more effectively, especially during the pandemic related challenging times. The CBO also initiated a number of policy measures to strengthen the banks to support the country's economic recovery.

Banks will continue to be the prime financiers for both the corporate and household sectors. Within the banking sector, domestic banks will remain the leading players. The major source of funding will be domestic deposits.

Despite the lower oil prices and increasing budget deficit, the banking sector continued its trajectory of growth albeit at a slower pace. Total assets of the banking sector crossed RO 36.3 billion by the end of Dec 2020 thus registering a growth of RO 0.7 billion or 2 percent during the year. On the other hand, total deposits held with banks increased by 2.9 percent to reach at RO 24.3 billion. The total outstanding credit extended by banks grew by 3.3 percent to RO 26.7 billion at the end of Dec 2020, while credit to the private sector showed relatively moderate growth of 1.1 percent to reach RO 22.9 billion.

The banking sector remained strong supporting the economic recovery and diversification initiatives and credit needs. The stability of the banking system stayed intact as the banking sector remained well capitalized, profitable, and fairly liquid with low infection ratio. Overall banking sector non-performing assets ratio suggests satisfactory asset quality and a well contained credit exposure. Improving economic growth in 2021 will create credit demand, thereby expecting the credit growth to go up in 2021.

Overall, the banking system is well-positioned for sustained growth in the future and will benefit from the Sultanate's economic rebound and systematic shift towards a more diversified and innovation based economy.

Nature of Business of Bank Nizwa

Bank Nizwa is a Sharia-based financial institution in the business of both intermediation and participation that would lead to the economic, social and ethical wellbeing of the society. The Bank's overall service proposition is divided into Personal Banking, Corporate & Commercial Banking and Financial Markets & Investments with customers being served through multiple channels, including branches, direct sales, call centre, ATM/CCDMs, mobile application, and internet banking.

Constituting the largest segment of the business, Retail Banking Division, serves the financial needs of individuals across the country, providing them with the necessary means to lead financially secured lifestyles through innovative Sharia compliant products including savings and current and investment deposits accounts as well as home, personal and auto finance solutions.

The Wholesale Banking Division serves the needs of the government sector, government-owned entities, corporate and commercial clients, as well as small-and-medium-enterprises (SMEs) through innovative structured working capital, long-term financing and trade finance facilities.

Key Developments in Core Segments

Retail Banking

The Retail Banking Division has worked towards continuously redefining the Islamic banking experience in Oman by providing customers with innovative products and services underpinned by responsive customer care and technologically advanced solutions to meet today's dynamic requirements. This approach has brought about positive change in Oman's retail banking space, prompting other institutions to re-examine their product and service offerings.

2020 was an unprecedented year, and individuals and retail customers were most impacted. Due to the pandemic and related restrictions on movements, closure of markets, reduction of salaries and various other factors, the retail banking sector was negatively impacted. Despite these challenges, the retail banking division consolidated its customer base. The focus was to strengthen and improve Bank Nizwa's market share while carefully balancing credit risk and exposure.

During 2020, the focus had been to stand by the customer during difficult times by offering financial and non-financial relief. Bank Nizwa offered instalment deferral for Ijara / Diminishing Musharaka Home Finance to low-income customers as monthly instalments for Home Finance is a significant household expense. The division also provided instalment deferral to customers impacted directly by the pandemic or salary reduction. As the restrictions ended, Bank Nizwa ran an exclusive promotion for frontline 'COVID

Warriors' to honour and thank all those who worked hard and selflessly to serve the country and its people.

To support the economic recovery, Bank Nizwa signed a number of agreements with reputed developers, dealerships and retailers to provide customers with value-added services and discounts. In order to strengthen the relationship with Wealth Management customers, Bank Nizwa launched a range of exclusive products, benefits, and discounted rates tailor-made to suit their unique needs.

Retail banking continued to upgrade its digital channels to improve financial inclusion and accelerate the move to a digital economy. Various new services were introduced across all electronic platforms – like IVR/phone banking, mobile app, internet banking, ATM/CDM machines, SMS, and Email – to enhance customer convenience. The 15th Branch of Bank Nizwa was inaugurated at Rustaq to continue to bring Islamic banking closer to the community. Retail banking conducted regular knowledge sessions to increase awareness and clarity about Islamic banking and Sharia compliant financial services and products, with the aim of enabling attendees to make informed financial decisions.

In 2020, Bank Nizwa further consolidated its position as the leading Islamic bank in Oman by increasing its customer base which helped increasing market share in the deposits and assets.. Drawing insights from branches at strategically locations across Oman, Bank Nizwa continued to analyse and anticipate customers' needs and set new benchmarks in customer service.

In 2021, the Bank aims to innovate further its suite of products and services to offer a rewarding and enriching experience and expand its network to grow its customer base.

Wholesale Banking

Wholesale Banking recorded remarkable growth during the year, despite a multitude of challenges that were made more pronounced due to the COVID-19 pandemic, and is now poised to address 2021 growth ambitions and client requirements in all business segments. The growing, multi-industry portfolio is a testament of the trust clients place in Bank Nizwa's Sharia-compliant products and services.

Noteworthy involvements in the economy were made in 2020, including sealing several notable landmark deals with key clients. This included financing agreements to Public-Private Partnership (Public-Private Partnership) projects such as advanced dates processing plant with Nakheel Oman Development Company, vital sanitation network project in the Dhofar region with Oman National Engineering & Investment Company, and a new campus project under the Arab Gulf Programme for Development with Arab Open University.

Additionally, a refreshed SME policy and support from a growing branch network will be catalysts to reach more clients in every Sultanate corner. The focus going forward, will be harnessing the strength and resources from all stakeholders, internally and externally, towards enhancing market share, client experience and service quality. The Wholesale Banking Group continues to redefine the business by enhancing capabilities and focussing on meeting diverse business needs towards the aspirations of Oman 2040 vision.

SME Banking

Bank Nizwa acknowledges the vital role the small and medium enterprise (SME) sector plays in contributing to the economy and its impact in providing national employment, and supports the sector keenly with solutions tailor-made for SMEs in the Sultanate.

The trust placed in Bank Nizwa's compliant products and services is evident in the notable increase of the SME customer-base and business volume. The SME business continues to expand coverage in key cities outside Muscat. With a special focus on industrial areas such as Madayn, more tie-ups and associations with major corporations and oil majors are on the cards.

Affiliations with vendors in the supply chain of larger corporate enterprises, particularly SMEs, will remain a mainstay. A dedicated brochure was made to highlight the Sharia-compliant products and services available to SMEs. Despite numerous challenges, the SME Banking unit added new business and products to register satisfactory growth. Bank Nizwa will continue to support the growth of SMEs with Sharia compliant products and services utilising various channels.

Corporate Banking

Corporate Banking remains one of the key growth drivers in the Wholesale Banking business, registering a record growth during 2020. Although there were several new business opportunities, the Bank's well-diversified portfolio approach has helped maintain an emphasis on asset quality.

During the pandemic, clients were supported in their cash flow management within the extent policy measures allowed as issued by the Central Bank of Oman. With a balanced approach, and focus on COVID-19 affected clients and industries, the Bank continued to support businesses – and in turn the general economy – during the difficult period of the pandemic. The multi-industry and multi-product approach has successfully delivered great results.

Major cities of Muscat, Sohar, Salalah and Duqm continued to be the main focus areas. In Duqm, the emphasis was on development projects in line with national objectives. With the active collaboration of all stakeholders, special attention was given to infrastructure projects and national priority industries across the Sultanate in order to develop innovative Sharia compliant solutions that delivered strong business value.

Mid-Corporate Banking

A new Mid-Corporate unit was established during 2020 to provide broader coverage, in addition to the existing business verticals, ensuring clearer and focused account management as well as business development. The scope of the unit is intended to bridge the segment between SMEs and large corporates. Companies within this segment present significant growth opportunities, along with the prospect of becoming their primary banker. Although only a setup, the unit made commendable inroads in the market, onboarding key clients operating in national priority sectors. Mid-Corporate Banking is expected to grow rapidly and provide continuity to clients' enterprise lifecycle.

Project Finance

The Project Finance unit continues to deliver coverage and financing needs to national priority economic sectors. Increased attention to private sector involvement in strategic national projects with the establishment of supportive new regulations including the Public-Private Partnership Law, Bankruptcy Law and Foreign Capital Investment Law, and the setup of the Government's dedicated Public-Private Partnership unit have resulted in the rising need of project financing.

PPP projects in the pipeline are expected to be key catalysts to growth. The Project Finance unit stands ready to meet the emerging need by continuing with successful execution and completion as well as delivering Sharia compliant project-related services to developing projects and contracts. During the year, the unit had done well in closing a number of milestone transactions of national importance. The team is actively working to carve out a niche as an active player in the Project Finance & Syndication market in Oman. This area of business, particularly infrastructure and utilities sector, is crucial not only to the Bank but also to the wider economy, where the Bank offers 100% Sharia-compliant solutions.

Government & Investment Banking

The Government & Investment Banking unit is essential in driving the wholesale deposit base that supports asset growth, apart from investments and advisory mandates. Increasing costs was a mounting challenge to the industry, and efforts by the Government unit had ensured the requisite sustenance while adding new clientele. With the increased budget rationalisation in the public sector, a proactive relationship management approach had ensured uninterrupted business.

The Investment Banking unit continued to make efforts in developing the Islamic capital market sector. Significant contribution was made to the collective efforts on the Omani Rial Sovereign Sukuk issuances, which Bank Nizwa co-arranged. The Government & Investment Banking unit will continue to broaden the base for the Bank to deliver core funding sources as well as supplement other income streams, including advisory services, with a differentiated approach.

Global Markets (Treasury)

Given the challenging market dynamics, liquidity management once again was at the fore. In this respect, Global Markets successfully navigated all funding requirements both at the Bank and regulatory levels. Collaborating with related divisions, and guided by the Management, proactive steps were executed to further enhance diversification of the liability structure. These measures had resulted in a more dynamic funding profile with additional cost savings to the Bank. Global Markets also played a role in supplementing income through its Foreign Exchange operations and Sukuk Portfolio management.

Foreign Exchange recorded significant growth year-on-year and is expected to be further enhanced to parallel with the Bank's expansion. The Sukuk Portfolio continued to record comprehensive growth despite market volatility and continues to be a stable revenue contributor for the Bank. Global Markets will continue to strive to expand its offerings backed by the team's market knowledge, expertise and experience in a variety of Islamic banking markets.

International Banking (Financial Institutions)

The International Banking unit continues to build and maintain relationships with partner financial institutions, domestically and globally. This effort is fundamental to provide our clients with the requisite network for payments and trade as well as state-of-the-art products by top regional and global banks. Supplemental funding sources were also achieved through financial institution partnerships.

The team ensured smooth correspondent relations and business flows. Overall worldwide country exposures and risk are monitored by the unit. During 2020, Bank Nizwa continued to add new financial institution partners, connections and new geographies. New lines for handling local and international payments, placements and trade finance business continued to be set up and enhanced. The International Banking unit will continue to increase participation to ensure the efficiency in the Bank's transaction processes, internally and externally.

Transaction Banking and Trade Finance

The Transaction Banking and Trade Finance business continued to expand with additional capability and facilities to meet the rising demand for efficient banking and cash management services, as well as international trade. The usage of Sharia compliant Trade Finance products and solutions by clients recorded a commendable increase during the year. This was afforded by the continuous marketing efforts and the efficiency of the operations which also enhanced clients' confidence in the Bank's capabilities.

Consequently, the sustained growth achieved has contributed to the increase in non-funded income for the Bank. The Transaction Banking unit and Trade Finance unit will continue with efforts towards delivering requisite professional services to customers, augmenting transactional services, as well as local and international trade facilitation.

Wholesale Banking Support

A key anchor for all Wholesale Banking units, the Wholesale Banking Support team was instrumental in the overall commendable performance and growth of the Wholesale Banking business. The team fortifies the efficiency of the Wholesale Banking Group covering multitude of client services.

The unit aims to deliver high client satisfaction levels through continuous improvement in its operations. In addition, the unit collaborates with all departments to resolve bottleneck issues in the timely delivery of services to clients. The unit will continue to provide all necessary support to new initiatives.

Product Development

Islamic Banking Product Development unit in Wholesale Banking is involved in designing, developing new products and services, process re-evaluation, documentation streamlining, and customising solutions to create an impactful suite of products and services that deliver on-point services to clients. These products are fully coordinated with the pressing needs of the modern world and leverage technology, customer relationship management, and pure market insights.

Bank Nizwa is very open to creativity and innovation, and has continually developed new and superior Sharia compliant products that deliver unique benefits with real added value to clients. The unit has the ability to arrive at both simple and complex Sharia solutions customised for the precise needs of corporate clients.

Risk Management

Risk Management is an integral part of our operations and is the responsibility of all units within the bank. The Risk Management function is overseen and managed on a bank-wide basis. The Bank's approach to risk management involves understanding drivers of risks, risk types, and impacts of risks. Drivers of risk include, but are not limited to, the economic environment, regulations, competitor or market evolution, business decisions, process or judgment error, dysfunctional markets, and natural disasters.

In 2020, Bank Nizwa has followed closely the guidance of the Central Bank of Oman (CBO) to mitigate the risk to the financial sector from the economic impact of the COVID-19 outbreak while ensuring adequate liquidity in the market to enable quick recovery of commercial activity. The Bank has also taken proactive steps to ensure the booking of well-diversified, high-quality assets.

Risk Management has been instrumental in identifying emerging key risks and risk drivers, measuring and managing such risks against the backdrop of changing macro-economic conditions and assessing and influencing the Bank's forward-looking strategy.

The Bank is inherently exposed to various types of risks in carrying out its business activities. The Bank has a sound and strong Risk Governance built upon risk-based decision-making principles across all levels of the organization. The Bank has a disciplined approach in managing risk and reward to assure that it is well-positioned to achieve its strategic objectives and to safeguard the interests of all stakeholders.

The Bank's primary responsibility of managing risk lies with the Board of Directors (BOD) who have formed an independent Board-level committee: Board Governance, Risk and Compliance Committee (BGRCC). The BGRCC is further supported by an independent Risk Management Group (RMG) that reports to the BOD through BGRCC.

As part of Risk Governance, Senior Management Committees are established within the Bank to manage the overall level of each risk type. This includes the Assets and Liability Committee (ALCO), the Credit and Investment Committee (CIC) and the IT Steering Committee (ITSC). A well-defined governance structure is in place for manual and system-based activities and is approved by the BOD. Periodic audits and examinations by the internal auditors ensure that the culture of risk awareness is embedded throughout the business divisions, which is supported by a rigorous set of checks and balances.

As part of the Bank's continuous improvement initiative, the Bank took several initiatives to review and enhance policies and processes to manage the emerging risks, improve efficiencies and customer service aligned to business strategy and risk appetite. The Bank follows the International Financial Reporting Standard (IFRS) 9 for impairment and business model classification for financial assets. The Bank is continuously improving internal standards of financial and non-financial parameters for the assessment of credit risk. This will further enhance our new client selection capabilities and will strengthen our credit underwriting terms and conditions to maintain the quality of asset booking. In addition, this has aided in controlling the quality of assets. Periodic stress tests and review of the portfolio by segments and sectors were undertaken to identify and proactively manage the portfolio through a robust and well ingrained early alert process of existing approved risk policies and adjusted them to changing regulatory and economic environment.

The Bank's Risk Management Group proactively monitors portfolios and implements strategies considering the external environment, focusing its areas of growth on selected segments. The Bank's risk approach is aimed to support portfolio growth within acceptable risk thresholds and ensure that the objectives of a well-controlled balance sheet are met. The Bank made progress in building balance sheet growth in assets and has taken important initiatives to diversify a portfolio and ensured that portfolio position across products is stable. Credit losses in retail and wholesale banking assets are the lowest in the industry and well within the risk appetite; they allow sufficient loss absorption capacities in products to expand. Financial performance of all the assets is robust and all products generated healthy returns. The Bank will continue to focus on diversification of banking portfolios while maintaining the current risk level.

A critical component of risk management is liquidity risk. Therefore, the Bank developed policies and monitoring tools that enable management to assess liquidity gaps through a cash flow and static approach, creating reserve against deposits, monitoring financing ratio, and mitigating liquidity risk and contingency measures. In order to advance further to manage the risk, the Bank successfully implemented Basel III Liquidity and Capital Standards to meet regulatory requirements.

A risk that is inherent in the Bank's daily operations is defined as 'Operational Risk'. To minimise this risk, an Operational Risk Management Policy was adopted and critical controls were implemented and enhanced as and when required at all levels of the organisation. During the period in review, the Bank conducted a bank-wide 'Risk and Control Self-Assessment' to capture and assess all key processes and controls to address operational risks within various businesses and support functions. During the period, the Bank conducted Business Continuity testing of all the critical functions to ensure the continuity of critical business in an unforeseen event.

The Bank conducted its annual Internal Capital Adequacy Assessment Process (ICAAP) and a forward-looking stress test during the period under review. This process provides the Bank with an assessment of the potential risks and capital requirements under stressed scenarios, and through this exercise has developed a systematic approach to manage its capital requirements during the time of stress. The report is approved by the Board of Directors and submitted to the Central Bank of Oman (CBO). The Risk Management team actively tracks the developments from the Basel Committee on Banking Supervision on the global regulatory frameworks and CBO on-going guidelines for local regulations. The Bank progressively integrates relevant aspects of both the frameworks and regulations to build a more resilient Bank in Oman.

Raising Awareness

As the first Islamic bank in Oman, Bank Nizwa maintains a long-standing commitment to raising awareness on the concept and principles of Islamic finance and sharing its multifaceted benefits with people across the Sultanate.
In February 2020, Bank Nizwa partnered to host the First Islamic Finance Youth Forum at the College of Banking and Financial Studies. During Q1, Bank Nizwa's signature

'Islamic Finance Knowledge Series' (IFKS) was held in collaboration with the Directorate General for Endowment and Religious Affairs in South Batinah governorate, Fiqh Council in Wilayat Bidbid, Tanuf School in Nizwa, and Mohamed bin Roh in Nizwa. In March 2020, the Bank partnered the Imam Jabir Bin Zaid Waqf Foundation by sponsoring its 'Endowment Provisions' workshop to raise awareness about the importance of Waqf in supporting humanitarian causes.

Despite the restriction to fight the COVID-19 pandemic, Bank Nizwa continued on its mission to reach out to local communities across Oman and empower them with the knowledge of Islamic finance through webinars and virtual events. The Bank sponsored and participated in numerous local, regional and international virtual meeting on Islamic finance, including the Islamic Finance News (IFN) Forum and 5th Annual AAOIFI-IsDB Conference.

Corporate Social Responsibility

Guided by the principles of Sharia and a firm dedication to give back to Omani society, Bank Nizwa has taken a leading role in promoting social development and investment through a number of initiatives and programmes. Since inception in 2013, Bank Nizwa's volunteering platform 'Masoliyati' has successfully taken over and embraced numerous opportunities to champion charitable initiatives across the Sultanate. To date, the programme has successfully launched a number of high-impact projects including its annual Iftar Sa'em outreach programme organised every Ramadan, clean-ups designed to preserve Oman's natural and historic treasures, as well as blood donation drives that have provided blood banks in the Sultanate with urgently needed plasma.

In 2020, the spread of COVID-19 infection and subsequent restrictions adversely impacted the healthcare system of Oman and had a significant socioeconomic affect across the country. As a responsible corporate citizen, Bank Nizwa had taken a number of initiatives to help staff members, customers and the general public combat the implications of the pandemic.

The Bank allocated OMR 600,000 to aid the government's efforts to battle the pandemic, and also supported Retail and SMEs customers effected by COVID-19 with finance instalment deferral for up to six months. In addition, a special bank account was opened to encourage and facilitate public contributions to the Ministry of Health fund.

Moreover, in 2020, Bank Nizwa Masoliyati members volunteered a total of 164 hours for various charitable activities – including distributing thousands of food packets to the needy and those impacted by the pandemic. The activities during the year also involved a number of successful collaborations with like-minded teams of volunteers and establishments.

Bank Nizwa continues to engage with local, regional and international stakeholders to affect change, including partnering on humanitarian causes and social initiatives with non-profit organisations, municipalities and ministries across different regions in the Sultanate.

AWARDS & ACCOLADES

In only 7 years of operation, Bank Nizwa has scooped-up nearly 30 local, regional and international recognitions to cement its position as the leading Islamic bank in Oman. In 2020, Bank Nizwa was named the 'Most Innovative Islamic Bank' at the International Finance Magazine Awards; ranked as 'One of the World's Best Islamic Financial Institutions' at the Global Finance 2020 Islamic Finance Awards; and awarded the coveted title of 'Best Performing Company (Large Cap)' at the Alam Al Iktisaad Awards 2020. The Bank was also awarded the Most trusted Islamic Bank in Oman at the Signature Luxury 100 awards.

The Chief Executive of Bank Nizwa, Mr Khalid Al Kayed, was also recognised for his astute leadership at a number of high profile forums. He was named among the 'Top 50 Leaders of the Islamic Economy' on the ISLAMICA 500 Guide and recognised as 'CEO of the Year 2020' at the 10th Global Islamic Finance Awards (GIFA).

Building Brand Equity

Since its inception as Oman's first dedicated Islamic bank, Bank Nizwa has been committed to the vision of being the 'Bank of Choice' for the people of Oman. The goal has always been to earn the trust of our customers, business community and society at large, by setting the benchmarks for integrity, innovation and customer satisfaction.

In 2020, Bank Nizwa recorded the fastest growth in the financial sector in Oman, and is widely acknowledged as the nation's leading and most trusted Islamic bank. The Bank has played a very visible role in Oman's path to economic recovery having partnered a number of significant government programmes and initiatives.

While Bank Nizwa is firmly rooted in its values as a dedicated Islamic bank offering customers fully Sharia compliant solutions, it is has also proven to be one of the most resilient and dynamic Omani brands in 2020.

Shari'a Governance Processes

Compliance to Sharia principles and requirements are inherently built into the Bank's end-to-end activities and transactions including products & services by following a comprehensive Sharia Governance Framework which comprised of several key elements listed below that sets the standards and implementation that ensure holistic Sharia compliance:

1 . Islamic Banking Regulatory Framework (IBRF)

A 'rule book' issued by the Central Bank of Oman on Islamic banking that sets guidelines on Sharia Governance and its relevant Sharia functions, Risk Management and Accounting Concepts and general product features which are permitted in Oman for Islamic banks in tandem with Oman Banking Law.

2. AAOIFI Standards

Sharia, Accounting and Governance Standards are published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) [and being referred to by CBO in IBRF], represent a major reference especially for Sharia compliance in the Islamic banking sector. Sharia resolutions which are not readily available in the AAOIFI Sharia standards are covered by resolutions from SSB.

3. Shari'a Supervisory Board (SSB)

SSB members are well-respected Omani and International Sharia scholars who review and provide Sharia resolutions and Fatwas on all products and related processes. This is in addition to overall Sharia supervision and oversight activities to ensure that the Bank's transactions and operations are Sharia compliant at all times. The SSB, which meets on quarterly basis, consists of Sheikh Dr. Mohammad bin Rashid Al Gharbi (Chairman), Sheikh Dr. Aznan bin Hasan (Deputy Chairman and new member) and Sheikh Ibrahim bin Nasser Al Sawwafi (Member).

SSB has established a Sharia Executive Committee (Sharia ExCom), comprising of Sheikh Al Gharbi and Sheikh Al Sawwafi, which meets on a monthly basis to review the Bank's business from a Sharia perspective and consider current business requirements. Sharia ExCom resolutions are based on previous SSB Sharia guidelines and Fatwas.

On the demise of the previous SSB Chairman, Sheikh Dr. Abdul-Sattar Abou-Ghuddah (may Allah be pleased with him) in October 2020, the Bank, with recommendation of the Board of Directors and approval of the Central Bank of Oman in December 2020, appointed Sheikh Dr. Aznan as the new SSB member to ensure quorum is met as per IBRF. The Board and the Management have record its highest appreciations to the family of late Sheikh Dr. Abdul-Sattar on his immense contribution toward the capacity-building of Sharia Governance in Bank Nizwa since establishment in 2012. We pray that Allah bless his soul, accepts all of his good deeds, forgive his sins if any, and gives him the Jannatul Firdaus without hisab.

4. Internal Sharia Reviewer (ISR) / Head of Sharia

ISR assumes the responsibilities of Head of Sharia Department. The functions include supervising Sharia audit and providing Sharia training. The major technical role of ISR is to execute Sharia review financing proposals in coordination with the Head of Sharia Structuring. Review of proposals within current approved product programs and Sharia Supervisory Board guidelines are presented to the respective business units as part of the required documents for execution. This function is the pre-execution Sharia review activity.

In addition to these daily functions, the ISR with assistance from the assigned team member acts as the coordinator for the SSB and prepares the meeting file and the minutes of meetings. Sharia resolutions and guidelines are then communicated to the respective business unit heads for adherence. Any approval required from business units before the next meeting of SSB is communicated by the ISR to SSB members by email for review and providing Sharia resolution. SSB has also delegated specific authorities to Sharia Ex-com whereby its members are entitled to issue Sharia resolutions. ISR also prepares the agenda and documents, and minutes of meetings for Sharia Ex-com and communicates its Sharia resolutions to relevant business unit heads.

5. Sharia Structuring & Compliance

This function provides Sharia review and supervision for business transactions and support function activities before execution (ex-ante) to confirm that structuring has been concluded based on IBRF, AAOIFI, and SSB Sharia guidelines and controls. Consequently, Sharia Review Reports (SRR) are prepared to document this supervision activity and presented to Sharia Ex-com and SSB in the monthly and quarterly meetings. This function forms the core of Sharia activity in the department, and is also responsible to advise on any new Product Development activity as well review of Product Programmes and its ancillary documentations. To support the Sharia compliance activity, Sharia non-compliance risks are continuously scrutinised, and specific mitigation controls are set to minimise these risks which occur due to unintentional human errors. Any income of Sharia non-compliant transactions are diverted to charity as per SSB guidelines.

6. Shari'a Audit Function

This is a dedicated function within the Bank that reports directly to the SSB, staffed with experienced professionals who conduct Sharia audit after execution of transactions to confirm adherence to Sharia guidelines as issued by SSB and as per Sharia reviews (ex-post). The function is also responsible to ensure the Profit Distribution Mechanism on Mudaraba accounts is properly executed aside from ensuring all incomes generated from banking transactions and services are not tainted, which may render it Sharia non-compliant, in which case it has to go to charity. Any Sharia non-compliance event is immediately reported to Sharia Ex-com for review and decision and further reported to SSB for next course of action / Sharia rule.

7. External Shari'a Audit

As required by IBRF, the Bank appoints an independent and qualified external Sharia Auditor to audit the activities of the Bank on an annual basis.

8. Shari'a Training

To ensure that all members of Management and staff have sufficient working knowledge of Islamic banking principles and guidelines, Sharia compliance department staff continues to exert major focus on Sharia training so that these principles are understood and practiced. Sharia training also encompasses external parties based on an awareness campaign on Islamic banking for all constituents of society such as school teachers and students, university students, employees in ministries and public sector institutions.

9. Non-Sharia Compliance Risk

Based on the Sharia guidelines in the IBRF concerning Sharia Non-Sharia Compliance Risk function, the Manager of Sharia Non-Compliance Risk Unit (SNCRU) identifies, measures, monitors, controls, and manages Sharia non-compliance risks in the Bank arising from failure to comply with Sharia rules and principles as set by IBRF issued by CBO, and Sharia standards issued by AAOIFI, and the Sharia rulings and guidelines issued by SSB. The Manager also assists the ISR in identifying the Sharia non-compliance risk parameters for each department or function.

- SNCRU measures quantitatively the volume of the identified parameters and detect any Sharia non-compliance events for each parameter.
- SNCRU monitors the development of the Sharia non-compliance parameters during the year periodically.
- SNCRU provides reasonable control measures to establish assurance of the soundness of operations which prevent violations to Sharia compliance measures and guidelines.

Human Resources

Employees are the driving force behind the Bank's success. Bank Nizwa believes that employees are the major asset for the organisation and efforts were centred on advancing their capacities and capabilities to become tomorrow's leaders in Islamic banking. As a result of this aspiration, the Bank witnessed higher achievements and stronger performance in 2020 despite of the macroeconomic pressures caused by the COVID-19 and low oil prices. The Bank's HR function played a vital role in taking care of its staff in 2020. All health measure and guidelines issued by the Supreme Committee were followed during the challenging working conditions during the year.

As part of the HR strategy, the Bank maintains a performance management approach to build a 'pay for performance' culture and develop a proper Succession Planning programme by providing a select group of high-potential employees with the required functional and technical skills. The Bank looks at this as a critical part of integrated approach of managing and developing its employees.

Attracting & Recruiting Talent

The Bank ended the year with 397 employees in 2020. Bank Nizwa continued to identify and on-board Omani talent in a competitive market. The Bank aims to be an 'employer of choice' attracting the best and brightest talent in the local market by hiring exceptional fresh graduates who demonstrate great promise, as well as highly qualified professionals with notable industry experience. To this end, the Bank implements precise and clear recruiting policies based on levels of educational and professional qualifications and the suitability of the specialisation for vacant positions. Similarly, the Bank is fully committed to retaining key talents.

Training & Development

In 2020 HR department has applied many strategic projects that are intended to improve over employees' performance, effectiveness and productivity. This was done through focusing on talent management and employees training. Various programmes have conducted for all employee segments, focused on top management, middle management and junior employees as well. The Bank continued to build its e-library, and 'going agile' during the COVID-19 pandemic has helped in expediting training. The aim is to develop all employees and cater to the need for succession planning. In fact, in 2020, Bank Nizwa training delivered increased with to the availability of the e-learning platform for individuals as well as for groups.

Bank Nizwa believes in the significance of qualifying and training all categories of employees by providing them with the appropriate skills in various banking and management areas, which would in turn enhance their knowledge and experience that enable them to develop their capabilities and expertise thereby enhancing overall performance.

The Bank's strategic training and development initiatives during 2020 focused on continuing to enhance the skills of all employees by providing high-level training in all functional categories across the Bank's various departments and branches. With an e-learning platform and various other opportunities, the Bank provided access to a vast amount of courses every employee to equip them with different sets of skills, either technical that focus on Islamic Banking Training, Product Development, Sales Leadership, Risk Management, Wealth Management, Corporate and Retail Banking, or Soft Skills. These cutting-edge training programmes reflect the latest developments in banking technology; they also support in engaging employees in specialised activities to augment their qualification and knowledge, and to enhance their work value and ethics in line with Bank Nizwa's vision and aspirations.

In 2020, HR team undertook a complete revamp of all their services delivery with the roll out of a suite digital tools to improve staff awareness, enhance productivity and drive engagement. The tools included an innovative HR App, and series of new initiatives to upskill future leaders and enable Bank Nizwa to become the employer-of-choice for Islamic banking professionals.

The Intranet portal was enhanced to make it easier for the staff to access information in areas such as Personal Development, HR Awareness, HR Content, HR Services, and HR Support. A host of new personal and professional development services were introduced, and others were digitalised for easier access.

In an endeavour to raise the skill levels and empower Omanis for middle and senior management positions, 10 of Bank Nizwa's employees were nominated to enrol in the National Leadership Programme, 'Etimad'. In addition, Bank Nizwa supported over 20 employees to pursue academic and professional qualifications that would help them enhance their professional competency.

Bank Nizwa also enrolled Management Team members for the Cambridge Islamic Finance Leadership Programme (Cambridge-IFLP), which is the first and the only global leadership programme specifically structured for Islamic financial institutions.

Compensating & Benefits

Bank Nizwa is developing a workforce to optimise the balance between supply and demand for capabilities, and to manage the cost and employee base more efficiently and effectively in the long term. The Bank's strategic plan is 'pay for performance'.

HR has closely monitored the progress of the implementation of the equity, fairness and competitive pay. The Bank has applied performance appraisal system where annual variable and merit-based remunerations of the employees were linked to the performance system. The Bank participates annually in an Industry Salary Survey with a professional HR Services company to compare its pay position to the market, and to make appropriate decisions based on the results of the survey in order to position compensations appropriately.

Moreover, the Bank continuously enhances its HR systems to help speed-up HR processes like payroll, recruitment, training, adhoc employees, payments, and employees' self-service. The aim is to ensure HR practices and decisions reinforced agile values and principles.

The Bank continuously strives to create sustainable processes to ensure that compensation structures for employees are appropriately aligned with regulatory requirements and drive sustainable performance at all levels.

Information Technology

The activities of a modern financial institution are unthinkable without Information Technology. Developing the IT infrastructure is one of Bank Nizwa's most important strategic goals for 2020. The Bank continued to invest in innovation to offer compelling customer experiences, to stand out amid increasing competition and to position the business for future growth. Innovation is continuous within the Bank and with strategic partners to enhance customer-facing applications as well as back-end processes and systems.

Some of the major initiatives in 2020 include implementation of Anti-Fraud Solution, Video Conferencing using Microsoft Teams, Work-From-Home Solution, Digital Board Meeting Solution, WPS System, HR Mobile App, Workplace by Facebook, OCB Mala'a System, B2B System, 3D Secure Online Credit Card Transaction, Mobile Banking UI/UX Revamp, as well as additional services like Charity & Bill Payments across multiple institutions in Oman, Instant Account Opening, and Instant Transfer (24x7).

Enhancements and upgrades continued in Corporate Internet Banking, IVR and credit card services with a view to creating greater customer satisfaction. Other developments included the implementation of Oman Credit Bureau, deployment of an advanced audit management system and reconciliations system to ensure compliance and better control of risks. In 2020, Bank Nizwa enhanced its network security through a firewall upgrade and introduced faster digital connectivity for branches.

Bank Nizwa aspires to be the 'digital bank of choice'. In a rapidly evolving digital environment, this commitment is anchored on preserving robust customer relationships by cultivating trust, relevance and convenience through every banking channel. Significant investment have been made in future-proofing platforms and in embracing cutting-edge technologies such as artificial intelligence, data science, robotics to enhance customer experience and serve them better. The Bank has also upgraded its networks and systems. Some of the large transformation programmes that will continue into 2021 include a Core Banking transformation and customer experience enhancement through the implementation of multiple Digital Banking solutions.

Against a dynamic backdrop in the business, technology and threat environments, Bank Nizwa maintains an exact balance between tight security and seamless productivity. In line with the Bank's process-centric approach that focuses on continuous improvement, several robust enterprise security protocols have been implemented, including 24/7 security monitoring, upgraded firewall, IP telephony system, direct connectivity with SWIFT alliance, advance call recording system, and faster connectivity links for branch operations.

Going Forward

OPEC+ agreed to deepen their current round of production cuts by 500 thousand b/d for the first quarter of 2020 in an effort to limit the oil market surplus. This strategy will keep oil remain bound in the USD 60-65/bbl range. Oman 2020 budget kept at USD 58/bbl and if realized oil price for 2020 stays above this price then government will have lower budget deficit.

Growth is expected to accelerate minimum 3% in 2020 driven largely by the rise in natural gas output (Khazzan gas field) as production from new fields comes on stream. The potential boost of the government's diversification efforts would continue to facilitate an increase in non-hydrocarbon growth to about 4% annually in the medium-term. The potential boost from the diversification investment spending would continue supporting growth in 2021 and the medium term.

The outlook for 2020 is encouraging; particularly the idea of diversification as a goal has continually been a mainstay in the successive development plans. It was translated into the initiation of the national programme for enhancing economic diversification called Tanfeedh. Therefore, the diversification process will lead to a paradigm shift in the development of the Omani economy moving along the path from an economy depending primarily on extraction of raw materials to an economy based on efficiency and effectiveness, and passing the transitional phase that leads to an economy that relies on knowledge and innovation.
Oman is on track towards maintaining sustainable growth, following the new reforms and governmental initiatives to diversify sources of revenue while increasing spending in key sectors. Five promising sectors were selected to contribute as drivers for national economic growth, which are: Manufacturing, Transport and Logistic Services, Tourism, Fisheries and Mining. This is to strengthen the promising sectors in which the Sultanate has a clear comparative advantage. In the face of the unprecedented global challenges, the country has remained steady and resilient in creating new opportunities for growth in a wide variety of sectors including infrastructure, healthcare, hospitality, tourism, mining, ports and shipping, logistics and transportation.

For the Banking sector, the operating environment is likely to remain challenging in 2020. Credit growth is expected to moderate further, while the pressure on profit margin is likely to persist as funding competition remains keen. Under such circumstances, the focus on our High 5 priorities, which are: 1) Financial Performance; 2) Technological

Advancement; 3) Market share; 4) Team and Culture; and 5) Progressive Organization is likely to be intense in 2020 as we aspire to establish a sustainable and efficient operating model for the Islamic Banking industry.

To increase the Bank's returns over the medium term, we need to grow income in a strong, safe and sustainable manner, while maintaining both cost and capital discipline. We will take further steps to realize our potential. In doing so, we will maintain a strict focus on customer satisfaction, risk and profitability. To diversify our business and strengthen our footprint, we will continue our growth strategy. We will grow further, attracting profitable business from both new and existing customers.

We are forward focused, shaping the future of banking by innovating, modernizing our operations, and investing in new capabilities. We are constantly looking for ways to adapt and reinvent ourselves while always keeping the customer at the centre of what we do. And while we have always been at the forefront of innovation, the proliferation of digital technologies provides us with opportunities to redefine how our customers see Bank Nizwa and the role we play in their lives. As further described in our Annual Report, we are proud that certain respected industry sources and agencies have ranked Bank Nizwa in their top categories.

In 2020, we will not only focus on what we deliver – but also on how we deliver it. This includes optimizing and simplifying end-to-end business processes and delivering business outcomes more quickly. And, of course, we will continue to empower our colleagues, so that they have the skills to adapt, develop and succeed.

We will continue to grow our balance sheet in a controlled manner, through diversification of income sources and expansion of our product and client base. We will further increase our market share in both Wholesale and Retail Banking segments and will strengthen our efforts to diversify the assets and liabilities portfolio to include a broader representation of multiple sectors and segments, and increase fee and commission income by enhancing our Transaction Banking activities.

We are making progress on our strategy to be 'the bank of choice', and are very clear on what we need to do to deliver continued performance in the current economic, regulatory and competitive environment. The enduring strength of the Bank, the commitment of the leadership team, and the continued dedication of our people to our purpose and to our customers, give a great confidence that we can deliver a bank of which you, as our shareholder, can be proud.

In closing, I would like to acknowledge that we would not have achieved our milestones in 2019 without the contribution of our employees and I wish to thank them for their commitment to our vision and performance. Our achievements would not have been possible without the support and guidance of the Central Bank of Oman, the Chairman, Sheikh Khalid Abdullah Ali Al Khalili, the Board of Directors and the Executive Management team for their support, guidance and efforts as we continue our journey to grow our market share. Most importantly, I would also like to express our appreciation to our customers and shareholders for their continued trust, loyalty and support rendered throughout our journey. I look forward to another exciting year ahead.

Khalid Al Kayed
Chief Executive Officer

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INDEPENDENT REASONABLE ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF BANK NIZWA SAOG ON THE CONTROL PROCEDURES RELATING TO SHARI'A COMPLIANCE AND GOVERNANCE STRUCTURE

We were engaged by the Board of Directors of Bank Nizwa SAOG (the "Bank") to report on the Bank's management's report on control procedures relating to Shari'a Compliance and Governance Structure (the "Report") for the year ended 31 December 2020 as set on pages 1 to 2, in the form of an independent reasonable assurance conclusion about whether the Bank's assertion that it has complied, in all material respects with all the requirements of Islamic Banking Regulatory Framework ("IBRF") issued by Central Bank of Oman ("CBO") related to Shari'a Compliance, guidelines and decisions of Shari'a Supervisory Board ("SSB") of the Bank, Shari'a standards as issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and that the Shari'a Governance Structure was suitably designed and implemented is fairly stated.

The Bank's responsibility

The management of the Bank is responsible for preparation and presentation of the Report that is free from material misstatement in accordance with relevant provisions of the IBRF issued by CBO related to Shari'a compliance, the guidelines and directives issued by its SSB and Shari'a standards as issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and for the information contained therein. The management of the Bank is also responsible for the prevention and detection of fraud, error and non-compliance with the laws and regulations applicable to the activities of the Bank including compliance with IBRF issued by CBO related to Shari'a Compliance, guidelines and decisions of SSB of the Bank and Sharia standards as issued by AAOIFI.

The management is responsible for ensuring that staff involved with the preparation of the Report are properly trained, systems are properly updated and that any changes in reporting encompass all significant business units.

Our responsibilities

Our responsibility is to examine the Report prepared by the Bank and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements ("ISAE") 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the International Auditing and

Our responsibilities *(continued)*

Assurance Standards Board and the Auditing Standard for Islamic Financial Institutions ("ASIFI") 6 "Independent Assurance Engagement on an Bank's Compliance with Shari'a Principles and Rules (External Shari'a Audit)", issued by AAOIFI. These standards require that we plan and perform our procedures to obtain reasonable assurance about whether the Report, is fairly stated, in all material respects.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Report whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Report in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Bank's internal control over the preparation and presentation of the Report. Our engagement also included: assessing the appropriateness of the Report, the suitability of the criteria used by the Bank in preparing the Report in the circumstances of the engagement, evaluating the appropriateness of the policies and procedures used in preparation of the Report and the reasonableness of estimates made by the Bank and evaluating the overall presentation of the Report. Reasonable assurance is less than absolute assurance.

Work performed

Our work mainly included:

1) Discussion with the Bank's management on the Shari'a compliance and governance structure of the Bank;

2) Review of documentation and systems established by the Bank to develop Shari'a compliance and governance framework, in order to develop an understanding of the Shari'a compliance and governance framework and an understanding of the related internal controls. This includes:

    a. Review of minutes of meetings of Shari'a Supervisory Board and Board of Directors;
    b. Review of policies and procedures;
    c. Review of selected job descriptions; and
    d. Review of reports prepared by the Shari'a Supervisory Board.

Work performed *(continued)*

3) Assessing the risks that Management's assertion on the description of controls may be materially misstated;
4) Performing further procedures on the identified risks, as deemed appropriate, using a combination of inspection, observation, confirmation and inquiry;
5) On a sample basis testing of transaction level controls listed in the Report;
6) On a sample basis testing of product specific controls listed in the Report;
7) Review of profit distribution policy and checking implementation on sample basis;
8) Checking of compliance with employee training procedures of the Bank; and
9) On a sample basis testing of other controls listed in the Report.

The scope of our work is also in compliance with 'scope of the auditor's work' as outlined in AAOIFI Auditing Standard No.4 regarding "Testing for Compliance with Shari'a Rules and Principles by an External Auditor".

As part of this engagement, we have not performed any procedures by way of audit, review or verification of the Report nor of the underlying records or other sources from which the Report was extracted.

Characteristics and Limitation of the Report

The Report on control procedures relating to Shari'a compliance is prepared to meet the needs of a range of users and may not, therefore, include every aspect of the control procedures that each user may consider important in their own particular environment. Our procedures regarding adequacy of systems and controls relating to the Bank's compliance with the IBRF issued by CBO related to Shari'a Compliance, guidelines and decisions of SSB of the Bank, Shari'a standards as issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, such procedures may not be relied upon as evidence of the effectiveness of the systems and controls against fraudulent collusion, especially on the part of those holding positions of authority or trust.
The conclusion relates only to the year ended 31 December 2020. The conclusion does not provide assurance in relation to any future periods as changes to systems or controls may alter the validity of our conclusion.

Criteria

The criteria for this engagement against which the Management's Shari'a Compliance and Governance Report for the year ended 31 December 2020 is assessed comprise the Shari'a principles and rules that for the purpose of external Shari'a compliance audit means the following, in the sequence provided below:

a) The regulations issued by the Central Bank of Oman 's ("CBO") Islamic Regulatory Framework insofar as these entail the regulatory Shari'a requirements;

b) Guidelines and decisions given by the Shari'a Supervisory Board of the Bank.

c) The Shari'a standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);

Criteria *(continued)*

The above criteria was applied for its implications on the financial statements of the Bank for the year ended 31 December 2020, which are annexed.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the Bank's management's assertion that it has complied, in all material respects with all the requirements of the IBRF issued by CBO related to Shari'a Compliance ,guidelines and decisions of SSB of the Bank, Shari'a standards as issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and that the Shari'a Governance Structure was suitably designed and implemented is fairly stated.

In accordance with the terms of our engagement, this independent reasonable assurance report on the Bank's management's report on control procedures relating to Shari'a Compliance and Governance Structure, has been prepared for the Board of Directors of the Bank and the Central Bank of Oman, solely to assist the management to meet the requirement of clauses 2.5.1.22 to 2.5.1.24 of Title 2 of IBRF and circular no. BDD/IB/CB/2013/7941 dated 2 September 2013 issued by the Central Bank of Oman, and for no other purpose or in any other context .

Long form report highlighting audit findings noted during the course of our engagement is being issued separately to the Management and Board of Directors of the Bank as of the same date as this report.

Restriction of Use of Our Report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Bank and Central Bank of Oman for any purpose or in any context. Any party other than the Bank and Central Bank of Oman who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. We accept or assume no responsibility and deny any liability to any party other than the Bank and Central Bank of Oman for our work, for this independent reasonable assurance report, or for the conclusions we have reached.

Our report is released to the Bank and Central Bank of Oman on the basis that it shall not be copied, referred to or disclosed, in whole (save for the Bank's own internal purposes) or in part, without our prior written consent.

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P O Box 641, PC 112
Shatti Al Qurum
Sultanate of Oman
CR.No: 1358131

11 March 2021

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SHARIA SUPERVISORY BOARD REPORT

Praise is to Allah Almighty, and prayers on Prophet Muhammad and his family and followers;

To the Shareholders of Bank Nizwa,

Assalam 'Alaykum Wa Rahmatul-Allah,

In compliance with the letter of appointment, we are required to submit the following report for the operations of Bank Nizwa during the year 2020 for the period from 01/01/2020 to 31/12/2020.

We have reviewed the applied principles and contracts relating to the products and services as well as transactions and applications introduced by Bank Nizwa during the mentioned period. We have also conducted our required review to form an opinion as to whether Bank Nizwa has complied with Sharia rules and principles, and also with specific Sharia rulings, resolutions and guidelines issued by the Sharia Supervisory Board.

We conducted our review directly, or through the Sharia Compliance Department, which included examining, on sample basis of each type of transactions, the relevant documentation and procedures adopted by Bank Nizwa. We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to establish reasonable assurance that Bank Nizwa has not violated Islamic Sharia rules and principles.

Our responsibility is restricted to provide an independent opinion, based on our review of the operations of Bank Nizwa, and report to you. The management at Bank Nizwa is responsible to ensure that Bank Nizwa conducts its business in accordance with Islamic Sharia rules and principles.

Based on the above, the Sharia Supervisory Board discloses the following opinion:

1. The contracts, transactions and operations concluded by Bank Nizwa during the year 2020 for the period from 01/01/2020 to 31/12/2020, which we have reviewed, are in compliance with Islamic Sharia rules and principles;
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Sharia Supervisory Board and in accordance with Islamic Sharia rules and principles;
3. All earnings which have been realized from sources or by means not in compliance to Islamic Sharia rules have been disbursed to the charity account under the supervision and guidelines of the Sharia Supervisory Board; and
4. We have reviewed the Zakat account and calculated the Zakat amount for each share. Also, the disbursement of Zakat is the responsibility of Shareholders and not the responsibility of the Bank.

We pray to Allah the Almighty to grant us all, success and obedience to Sharia.

Sheikh Dr. Sheikh Mohammad bin Rashid Al-Gharbi
Chairman of Sharia Supervisory Board

Sheikh Dr. Aznan bin Hasan
Member of Sharia Supervisory Board

Sheikh Ibrahim bin Nasser Al-Sawwafi
Member of Sharia Supervisory Board

Place and Date: Muscat, 13 of Jumada Al thanyeah, 1442H; Corresponding to 26 January 2021.

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TO THE SHAREHOLDERS OF BANK NIZWA SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Bank Nizwa SAOG (the "Bank"), which comprise the statement of financial position as at 31 December 2020, the statements of income, changes in equity, cash flows, and sources and uses of charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and results of its operations, changes in owners' equity, its cash flows, and sources and uses of charity fund for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman (the "CBO").

In our opinion, the Bank has also complied with the Islamic Shariah Principles and Rules as determined by the Shariah Supervisory Board of the Bank during the year ended 31 December 2020.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters *(continued)*

Impairment of financial assets subject to credit risk - refer to notes 13 and 41 in the financial statements

Description

We focused on this area because:

- Impairment of financial assets subject to credit risk involves:
  - complex accounting requirements, including assumptions, estimates and judgements underlying the determination of adjustments on transition;
  - modelling risk (e.g. inappropriate methodology and design decisions);
  - susceptibility to management bias when making judgements to determine expected credit loss outcomes; and
  - complex disclosure requirements.
- The COVID-19 pandemic has significantly impacted management's determination of ECL. The assumptions regarding the economic outlook are more uncertain which increases the level of judgement required by the Bank in calculating the ECL, and the associated audit risk.
- The Bank's net financial assets subject to credit risk, both on and off-balance sheet, were RO 1.45 billion as at 31 December 2020 (2019: 1.25 billion), hence a material portion of the statement of financial position. Furthermore, the total impairment recognized by the Bank on these financial assets amounted to RO 6.7 million in the year ended 31 December 2020 (2019: 2.6 million) which represents 61% of the net profit of the Bank hence a material portion of the statement of income.

How the matter was addressed our audit

Our procedures, amongst others, included.

- Evaluating the appropriateness of the accounting policies based on the requirements of the relevant accounting standards and CBO regulations, our business understanding and industry practice.
- Obtained our understanding of management's processes, systems and controls implemented, including controls over model development.
- Identifying and testing the relevant controls.
- Involving information risk management (IRM) specialists to test information systems and relevant controls.
- Evaluating the reasonableness of management's key judgements and estimates made in provision calculations, including selection of methods, models, assumptions and data sources in light of the impact of the COVID-19 pandemic.
- Involving Financial Risk Management (FRM) specialists:
  - to challenge significant assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, macroeconomic variables, and recovery rates, including the impact of the COVID-19 pandemic; and
  - for evaluating the appropriateness and testing the mathematical accuracy of ECL models applied.

Key audit matters *(continued)*

How matter was addressed in our audit *(continued)*

- Assessing the appropriateness of the valuation used for collateral by the Bank for their LGD assumptions;
- Assessing the completeness, accuracy and relevance of data.
- Evaluating the reasonableness of and testing the post-model adjustments particularly in light of the volatility caused due to impact of the COVID-19 pandemic.
- Performing detailed credit risk assessment of a sample of performing and non-performing financing assets in line with applicable standards and CBO regulations;
- Assessing the adequacy of the Bank's disclosures by reference to the requirement of the relevant accounting standards and CBO regulations.

Other Matter

The financial statements of the Bank for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on 10 March 2020.

Other information

The Board of Directors is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Board of Directors' report and other sections which forms part of the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the Bank's undertaking to operate in accordance with Islamic Sharia Rules and Principles as determined by the Bank's Shariah Supervisory Board.

The Board of Directors is also responsible for the preparation and fair presentation of the financial statements in accordance with FAS as modified by CBO, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ASIFIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ASIFIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

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Auditors' Responsibilities for the Audit of the Financial Statements *(continued)*

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Regulatory Requirements

Further, we report that financial statements of the Bank as at and for the year ended 31 December 2020, comply, in all material respects, with the:

- relevant disclosure requirements of the Capital Market Authority; and

- applicable provisions of the Commercial Companies Law of 2019.

The engagement partner on the audit resulting in this independent auditors' report is Ravikanth Petluri.

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11 March 2021

STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020	2019
		RO'000	RO'000
Assets			
Cash and balances with Central Bank of Oman	4	**67,943**	89,293
Due from banks and financial institutions	5	**12,996**	20,321
Inter-bank Wakala investments	6	**-**	455
Sales receivables and other receivables – net	7	**208,909**	211,058
Financial assets at fair value through equity	8b	**100,040**	66,104
Financial assets at amortised cost	8a	**1,979**	1,993
Musharaka Financing – net	9	**176,652**	116,659
Investment in real estate	10	**14,175**	14,175
Ijara Muntahia Bittamleek – net	11	**303,905**	318,134
Wakala Bil Istethmar – net	12	**298,692**	183,672
Property and equipment	14	**1,780**	1,875
Intangible assets	15	**2,264**	2,367
Other assets	16	**16,924**	8,258
Total assets		**1,206,259**	1,034,364
Liabilities, equity of unrestricted investment accountholders and owners' equity			
Liabilities			
Inter-bank Wakala	17	**91,833**	66,825
Customers' Wakala	18	**353,468**	337,851
Customers' accounts	19	**205,002**	149,243
Other liabilities	20	**30,177**	22,142
Total liabilities		**680,480**	576,061
Equity of unrestricted investment accountholders	21	**366,091**	310,396
Owners' equity			
Paid-up capital	22	**150,000**	150,000
Share premium	23	**2,091**	2,091
Investment fair value reserve	24.1	**(7)**	(721)
Legal reserve	24.2	**3,266**	2,159
Impairment reserve		**150**	150
Retained earnings/(Accumulated losses)		**4,188**	(5,772)
Total owners' equity		**159,688**	147,907
Total liabilities, equity of unrestricted investment accountholders and owners' equity		**1,206,259**	1,034,364
Net assets per share (RO)	36	**0.106**	0.099
Contingent liabilities and commitments	26	**336,586**	323,857

The financial statements were approved by the Board of Directors on 11 March 2021 and signed on their behalf by:

Khalid Bin Abdullah Al Khalili	**Musabah Bin Saif Al Mutairy**	**Khalid Al Kayed**
Chairman	Vice Chairman	Chief Executive Officer

The attached notes 1 to 43 form part of these financial statements.

STATEMENT OF INCOME

For the year ended 31 December 2020

	Notes	2020	2019
		RO'000	RO'000
Sales receivables and other receivables revenue	27	**11,849**	11,559
Ijara Muntahia Bittamleek	28	**16,257**	16,986
Profit from Wakala Bil Istethmar		**14,396**	10,801
Profit from Musharaka Financing		**8,346**	5,609
Profit from inter-bank Wakala investments	29	**144**	182
Profit from financial assets at fair value through equity	30	**3,760**	2,242
Income from jointly financed investments and receivables		**54,752**	47,379
Return on unrestricted investment accountholders before the Bank's share as Mudarib	31	**(15,037)**	(14,674)
Bank's share as Mudarib		**7,434**	7,170
Return on unrestricted investment accountholders		**(7,603)**	(7,504)
Profit paid on Wakala		**(15,766)**	(14,272)
Bank's share in income as Mudarib and Rabul Maal		**31,383**	25,603
Bank's income from its own investments and financing	32	**1,682**	1,554
Revenue from banking services	33	**5,514**	5,396
Foreign exchange gain – net		**675**	465
Total revenues		**39,254**	33,018
Operating expenses	34	**(18,725)**	(17,519)
Depreciation and amortization	14&15	**(931)**	(911)
Total expenses		**(19,656)**	(18,430)
Profit before provisions and tax		**19,598**	14,588
Impairment losses / write off	13	**(6,700)**	(2,595)
Profit before tax		**12,898**	11,993
Income tax	35	**(1,831)**	(1,814)
Profit for the year		**11,067**	10,179
Earnings per share basic and diluted – (RO)	37	**0.007**	0.007

The attached notes 1 to 43 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020	2019
		RO'000	RO'000
Cash flows from operating activities			
Profit before tax		**12,898**	11,993
Adjustments for:			
Depreciation and amortization	14 &15	**931**	911
Impairment losses	13	**6,700**	2,571
Other provision		**(40)**	44
Investment risk reserve		**(225)**	145
Cash flows from operating activities before changes in operating assets and liabilities		**20,264**	15,664
Changes in operating assets and liabilities:			
Decrease/(increase) in sales receivables and other receivables		**946**	(29,803)
Decrease/(increase) in Ijara Muntahia Bittamleek assets		**13,720**	(887)
(Increase) in Musharaka financing		**(61,136)**	(59,185)
(Increase) in other assets		**(8,840)**	(2,359)
Increase in customers' accounts		**55,759**	73,414
Increase/(decrease) in other liabilities		**5,695**	(1,038)
Net cash flows generated from / (used in) operating activities		**26,408**	(4,194)
Investing activities			
Movement in investment in financial assets at fair value through equity		**(32,737)**	(16,821)
Movement in Wakala Bil Istethmar		**(118,362)**	(46,249)
Purchase of intangibles assets	15	**(270)**	(421)
Purchase of property and equipment	14	**(463)**	(441)
Net cash flows used in investing activities		**(151,832)**	(63,932)
Financing activities			
Increase / (decrease) in unrestricted investment accountholders		**55,667**	(12,779)
Increase in customers' Wakala		**15,617**	24,912
Decrease in Inter-bank Wakala		**5,679**	19,346
Net cash flows generated from financing activities		**76,963**	31,479
Decrease in cash and cash equivalents		**(48,461)**	(36,647)
Cash and cash equivalents at the beginning of the year		**62,108**	98,755
Cash and cash equivalents at the end of the year		**13,647**	62,108
Cash and balances with CBO	4	**67,943**	89,293
Capital deposit with CBO	4	**(500)**	(500)
Due from banks and financial institutions	5	**13,012**	20,333
Inter-bank Wakala investment	6	**-**	461
Inter-bank Wakala less than three months	17	**(66,808)**	(47,479)
Cash and cash equivalent for the purpose of cash flow statement		**13,647**	62,108

The attached notes 1 to 43 form part of these financial statements.

STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2020

	Paid-up capital	Share premium	Investment fair value reserve	Legal reserves	Impairment reserve	Retained earnings / (Accumulated losses)	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2020	150,000	2,091	(721)	2,159	150	(5,772)	147,907
Investment fair value reserve (net of tax)	-	-	714	-	-	-	714
Profit for the year	-	-	-	-	-	11,067	11,067
Transfer to Legal reserve	-	-	-	1,107	-	(1,107)	-
Balance as at 31 December 2020	150,000	2,091	(7)	3,266	150	4,188	159,688

	Paid-up capital	Share premium	Investment fair value reserve	Legal reserves	Impairment reserve	Accumulated losses	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2019	150,000	2,091	(1,261)	1,141	150	(14,933)	137,188
Investment fair value reserve (net of tax)	-	-	540	-	-	-	540
Profit for the year	-	-	-	-	-	10,179	10,179
Legal reserve	-	-	-	1,018	-	(1,018)	-
Balance as at 31 December 2019	150,000	2,091	(721)	2,159	150	(5,772)	147,907

The attached notes 1 to 43 form part of these financial statements.

STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2020

	2020	2019
	RO'000	RO'000
Sources of charity fund		
Balance as at 1 January	-	-
Non-Islamic income for the year	38	38
Total source	38	38
Uses of charity fund		
Use of charity fund *	38	38
Undistributed charity fund as at 31 December	-	-

*The charity fund is utilised by making contribution to organizations which are registered with the Ministry of Awqaf and Religious affairs, namely Zakat Seeb Committee, Oman Charitable Organization and Oman Association of the Care of Holy Quran.

The attached notes 1 to 43 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Nizwa SAOG ("the Bank") was registered in the Sultanate of Oman as a public joint stock company under registration number 1152878 on 15 August 2012. The Bank's shares are listed on the Muscat Securities Market "MSM" and its principal place of business is in Muscat, Sultanate of Oman.

The Bank commenced its operations on 23 December 2012 and currently operates through fifteen branches in the Sultanate under the banking license issued by the Central Bank of Oman on 19 December 2012.

The principal activities of the Bank are opening current, saving and investment accounts, providing Murabaha finance, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba in exchange for a profit share or agency in exchange for a fee, and excess profit as incentive providing commercial banking services and other investment activities.

The Bank's activities are regulated by the Central Bank of Oman ("CBO") and supervised by a Shari'a Supervisory Board ("SSB") whose role is defined in Bank's Memorandum and Articles of Association.

At 31 December 2020, the Bank had 397 employees (2019: 379 employees) and its address is: P O Box 1423, Postal Code 133, Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO, the financial statements have been prepared in accordance with Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), as modified by CBO with respect to IFRS 9 and other applicable regulations of CBO. In accordance with requirements of AAOIFI, matters that are not covered by FAS, the Bank uses guidance from the relevant International Financial Reporting Standards ("IFRS"). Thus subject to preparation of the financial statements in accordance with FAS issued by AAOIFI, the financial statements comply with the relevant disclosure requirements of the Commercial Companies Law of 2019, as amended and Capital Market Authority of the Sultanate of Oman.

The new Commercial Companies Law promulgated by the Royal Decree No. 18/2019 (the Commercial Companies Law of the Sultanate of Oman) was issued on 13 February 2019 which has replaced the Commercial Companies Law of 1974. As per the articles of the Royal Decree No. 18/2019, the new Commercial Companies Law has come into force on 17 April 2019 and the bank is in compliance with the new law.

Statement of restricted investment accountholders, statement of Qard fund and Zakat are not presented as these are not applicable.

2.2 Basis of measurement

The financial statements are prepared on historical cost basis, except for the measurement of investments carried at fair value through equity and investment in real estate.

2.3 Functional and presentation currency

The financial statements have been presented in Rial Omani (RO) which is the functional currency of the Bank. Except as otherwise indicated, financial information presented in RO has been rounded off to the nearest thousand Rials Omani.

2.4 Use of estimates and judgements

The preparation of financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors including expectation of future events that are believed by the Bank to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The significant use of judgments and estimates are as follows:

2. BASIS OF PREPARATION *(continued)*

2.4 Use of estimates and judgements *(continued)*

2.4.1 Expected Credit Loss on financial assets

The Bank follows IFRS 9 accounting standard for financial instruments for the following:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.
- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2020 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

- Assessment of significant Increase in credit risk
- Macro-economic factors, forward looking information and multiple scenarios
- Definition of default
- Expected life
- Possible Recovery from the disposal of security

Detail on criteria for significant increase in credit risk, macro-economic factors, forward looking information and multiple factors and definition of default and expected life is given on the note 3.6.

2.4.2 Valuation of investment property

The Bank follows international standards for valuation for non-financial asset such as sales comparison, discounted future cash flows, internal model based valuation to arrive at a fair value. The valuation of asset is reviewed on regular basis to make necessary adjustment where required. At a minimum valuation is done once every three years basis either by engaging an external agency or through an independent internal unit.

3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below.

3.1 Cash and cash equivalents

For the purposes of the statement of cash flows cash and cash equivalents comprise cash in hand, non-restricted balance with the CBO, amounts due to / from banks and financial institutions, inter-bank Wakala, with remaining maturity of three months. Cash and cash equivalents are carried at amortised cost at the reporting date.

3.2 Sales receivables and other receivables

- Sales receivables consist mainly of sales transaction agreements (Murabaha) stated net of deferred profits and provision for impairment. The Bank considers the promise made in the Murabaha to the purchase orderer as obligatory.
- Istisna receivables is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. Istisna receivables are stated net of deferred profits and provision for impairment.
- Ijara income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

3.3 Ijara Muntahia Bittamleek and Ijara income receivables

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Leased assets are depreciated over the life of the lease in a systematic manner.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.4 Wakala Bil Istethmar

Wakala Bil Istithmar is used as a short to medium and long term working capital financing tool. The Bank, in its capacity as the Principal (hereinafter referred to as the "Muwakkil") appoints the Client as its Agent (hereinafter referred to as the "Wakil") to manage the investment amount (hereinafter referred to as the "Investment Amount") in Shari'a-compliant activities that may be entered into, as agreed, by the Wakil on behalf of the Muwakkil. The prime objective of making such an investment is to generate profit from the business activities and get the Investment Amount paid back along with the realized profit amount, if any, on the investment maturity date compared to the anticipated profit rate Investments.

3.5 Musharaka financing

Diminishing Musharaka is a contract, based on Shirkat-ul-Mulk, between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to customer (at carrying value).It is a contract in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

3.6 IFRS 9 - Financial Instruments

3.6.1 Classification of financial assets

As per IFRS 9, the Bank classifies its financial assets in the following measurement categories:

a) Fair value through other comprehensive income (FVOCI);

b) Amortised cost; or

c) Fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions:

a) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

a) The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3.6.2 Classification of Financial liabilities

Financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs and are measured at amortised cost using the effective profit rate method.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit paid over the relevant period. The effective profit rate is the rate exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3.6.3 Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

a) The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profits, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6.3 Business model assessment (continued)

b) How the performance of the portfolio is evaluated and reported to the Bank's management; the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

c) how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

d) The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3.6.4 Assessment whether contractual cash flows are solely payments of principal and profits ('SPPP')

In assessing whether the contractual cash flows are solely payments of principal and profit, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

a) contingent events that would change the amount and timing of cash flows;

b) leverage features;

c) prepayment and extension terms;

d) terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

e) features that modify the profit rates based on the given circumstances.

Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Investment securities

The 'investment securities' caption in the statement of financial position includes:

a) debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method;

b) debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;

c) debt securities measured at FVOCI; and

d) equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in equity, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

a) Profits from the financial assets

b) ECL and reversals; and

c) Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6.4 Assessment whether contractual cash flows are solely payments of principal and profits ('SPPP') (continued)

Investment securities *(continued)*

the investment, in which case they are recognised in fair value reserve. Cumulative gains and losses recognised in fair value reserve are transferred to retained earnings on disposal of an investment.

3.6.5 Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

3.6.6 Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

a) financial assets that are debt instruments;

b) financial guarantee contracts issued; and

c) financing commitments issued.

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

a) debt investment securities that are determined to have low credit risk at the reporting date; and

b) other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

a) significant financial difficulty of the borrower or issuer;

b) a breach of contract such as a default or past due event more than 90 days;

c) the restructuring of a financing or advance by the Bank on terms that the Bank would not consider otherwise;

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

e) the disappearance of an active market for a security because of financial difficulties.

A financing that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing exposure that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in international sovereign debt is credit-impaired, the Bank considers the following factors.

a) The market's assessment of creditworthiness as reflected in the Sukuk yields.

b) The rating agencies' assessments of creditworthiness.

c) The country's ability to access the capital markets for new debt issuance.

d) The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

e) The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Calculation of expected credit loss (ECL)

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6.6 Impairment (continued)

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the bank's existing risk management processes.

The bank's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on eleven factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

The Bank will consider a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

a. The remaining Lifetime PD at the reporting date has increased as result of downgrading of internal rating by two notches;
b. Inadequate or unreliable financial and other information such as unavailability of audited financial statement
c. Non-cooperation by the counterparty in matter pertaining to documentation
d. Counterparty is the subject of litigation by third parties that may have a significant impact on his financial position
e. Frequent changes in senior management
f. Intra-group transfer of funds without underlying transactions
g. Deferment/delay in the date for commencement of commercial operations by more than one year
h. Modification of terms resulting in concessions granted to counterparty including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, bank is guided by the extant instructions of CBO in regard to treating an account as restructured.
i. A fall of 25 percent or more in the turnover or in the EBIT as compared to previous year
j. Erosion in net-worth by more than 20 percent as compared to the previous year and coupled with an increase in leverage.
k. A fall in the debt service ratio below 1.

IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables), that are closely correlated with credit losses in the relevant portfolio.

The bank estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a future macroeconomic scenario.

The bank base case scenario is based on macroeconomic forecasts using historical information from external sources including impact of portfolio and industry related information. Where worse-case scenario is developed taking the historical information of defaults and is regressed to arrive at forward looking results.

Scenarios are probability-weighted according to the bank best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on an annual basis (if required).

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Overview of the ECL principles

The Bank has records the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6.6 Impairment *(continued)*

Overview of the ECL principles *(continued)*

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 month ECL).

The 12 month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its financing exposure into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1

When financing are first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2.

Stage 2

When a financing exposure has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 financing exposure also include facilities, where the credit risk has improved and the financing exposure has been reclassified from Stage 3.

Stage 3

Financing exposure considered credit-impaired. The bank records an allowance for the LTECLs.

At initial recognition of a financial asset, the Bank recognises a loss allowance equal to 12-month expected credit losses. After initial recognition, the three stages under the proposals would be applied as follows:

Stage 1

Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses

Stage 2

Credit risk has increased significantly since initial recognition – recognise lifetime expected losses with revenue being calculated based on the gross amount of the asset

Stage 3

There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective profit rate (EPR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

The Bank calculates ECLs based on a two probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EPR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6.6 Impairment *(continued)*

The calculation of ECLs *(continued)*

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments. As a conservative policy, the Bank has not taken any pre-payment of credit exposure. Had the bank applied early settlement or prepayment, Expected Credit Loss (ECL) would have reduced.
- LGD – The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The bank is applying LGD rate after adjusting with the applicable haircuts set with respect to the type of security for all wholesale banking secured portfolio. For all other portfolio including retail secured and retail unsecured, the Bank has applied 45% as LGD value to be on conservative side.

3.6.7 Write off policy

Financial assets are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the customer does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Banks procedures for recovery of amounts due.

3.7 Investments

Investment in Ijarah asset

Operating Ijarah of the Bank as lessee:

Ijarah instalments are allocated over the financial periods of the lease term and recognised in the financial period in which these instalments are due. Ijarah instalments are presented in the lessee's statement of income as Ijarah expenses. Initial direct cost incurred by lessee for arranging for the lease agreement is, if material, allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If immaterial they are charged directly as an expense to the financial period in which the lease agreement is made.

Operating Ijarah of the Bank as lessor:

When the Bank rents out to a client asset that was previously rented by the Bank; the leased asset is presented in the lessor's statement of financial position under Investment in Ijarah assets.

Debt instruments at FVOCI (IFRS 9: FVOCI)

The bank follows IFRS 9 for classifications of debt instruments which are measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

For debt securities measured at FVOCI, gains and losses are recognised in equity and upon sale realized through Profit and Loss.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in fair value reserve is reclassified from equity to profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Investments *(continued)*

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in equity. Equity instruments at FVOCI are not subject to an impairment assessment.

Investment in real estate

Investment in real estate is classified as held-for-use and is measured at fair value under the fair value model of Financial Accounting Standard No. 26 issued by AAOIFI. These are initially recognised at cost including transaction cost and subsequently measured at fair value. Unrealised gains arising from a change in the fair value of investment in real estate are recognised directly in equity under "Property fair value reserve" for the period in which it arises taking into consideration the split between the portions related to owners' equity and equity of investment accountholders. Unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the property fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the statement of income. In case there are unrealised losses relating to investment in real estate that have been recognised in the statement of income in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the statement of income.

The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the property fair value reserve account are recognised in the statement of income for the current financial period, taking into consideration the split between the portion related to owners' equity and the portion related to investment accountholders.

3.8 Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar assets) is derecognised when:

(i) the right to receive cash flows from the asset has expired;

(ii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3.9 Jointly and self-financed

Investments, financing and receivables that are jointly owned by the Bank and equity of unrestricted investment accountholders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by the Bank are classified under "self-financed".

3.10 Fair value for financial assets

For investments quoted in an active market, fair value is determined by reference to quoted market prices.

For financial instruments where there is no active market, fair value is normally based on comparison with the current market value of highly similar financial instruments.

Where the fair value of an investment cannot be reliably measured, it is stated at the fair value of consideration given or amortised cost and any impairment in the value are recorded in statement of income.

For Sales (Murabaha) receivables the fair value is determined at the end of the financial period at their cash equivalent value.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Fair value for non-financial assets

Market prices represent the fair value for non-financial assets. In case market prices are not available, they are assessed by taking average value of three assessments from experienced and certified parties.

3.12 Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives from the date the assets is brought in to use as follows:

	Years
Furniture	5
Fixtures	10
Equipment	7
Motor vehicle	7
Computer hardware	5

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount, and the impairment is recorded in the statement of income.

3.13 Intangible assets

Intangible assets are classified according to their useful life for a specified or unspecified period of time. Intangible assets with definite useful life are amortised over 10 years, and amortisation is recorded in statement of income. For intangible assets with indefinite useful life, impairment in value is reviewed at the reporting date and any impairment in their value is recorded in statement of income.

Any indications of impairment of intangible assets are reviewed at the reporting date; in addition, the useful lives of these assets are reviewed annually. If expected useful lives vary from the estimated ones the change in estimate is adjusted prospectively.

3.14 Equity of unrestricted investment accountholders

Equity of unrestricted investment accountholders are recognised when received by the Bank and measured by the amount received during the time of contracting. At the end of the financial period the equity investment accountholders are measured at the book value.

3.15 Profit equalisation reserve

Profit equalisation reserve, this is the amount appropriated by the Bank out of Mudaraba income before allocating the Bank's share as investment manager (Mudarib), in order to maintain a certain level of return on investment for unrestricted investment accountholders and increase owners' equity.

3.16 Investment risk reserve

Investment risk reserve is the amount appropriated by the Bank out of profit share of the unrestricted investment accountholders after allocating the Mudarib share, in order to cushion the effects of the risk of future investment losses.

The terms and conditions whereby investment risk reserve can be set aside and utilised are determined and approved by the Shari'a Supervisory Board of the Bank.

3.17 Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Omani Riyal at the mid-rate of exchange at the reporting date. All differences are taken into the statement of income. Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.18 Offsetting

Financial assets and financial liabilities are only offset and the net amount is reported when there is a Shari'a or legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.19 Revenue recognition

Sales receivables and other receivables

Murabaha profit from sales transactions is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised.

Istisna profit from Istisna is recognised using proportionate allocation over the future financial period of credit whereby each financial period shall carry its portion of profits irrespective of whether or not cash received.

Ijara Muntahia Bittamleek Ijara income is recognised on a time apportioned basis over the Ijara term.

Wakala Bil Istethmar

Income from Wakala Bil Istethmar is recognised on a time apportioned basis so as to yield a constant periodic rate of return based on the balance outstanding.

Investment in Ijarah asset

Ijarah revenue is allocated proportionately to the financial periods in the lease term. Ijarah revenue is presented in the lessor's statement of income as Ijarah revenue. Initial direct cost incurred by lessee for arranging for the lease agreement is, if material, be allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If immaterial they are charged directly as an expense to the financial period in which the lease agreement is made. Ijarah receivables are measured at their cash equivalent value.

Musharaka

Profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Bank's share as Mudarib of income from equity of unrestricted investment accountholders

The Bank's share as a Mudarib for managing equity of unrestricted investment accountholders is accrued based on the terms and conditions of the related Mudarib agreements.

Fee and commission

Fees and commission income is recognised upon rendering the services.

Dividends

Dividends are recognised when the right to receive payment is established.

Income from investments

Income from investments is recognised when earned.

Rental income from investment in real estate

Rental income is accounted for on a straight line basis over the term of the lease.

3.20 Return on equity of unrestricted investment accountholders

Investors' share of income is calculated based on income generated from joint investment accounts after deducting profit equalisation reserve, Bank's share as Mudarib, fund provider and investment risk reserve. The investors' share of income is distributed to the investors based on average participation balance in the Mudaraba pool.

3.21 Employee benefits

Obligations for contributions to an unfunded defined benefit retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as an expense in statement of income as incurred.

The Bank's obligation in respect of non-Omani terminal benefits, under an unfunded defined benefits retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.22 Directors' remuneration

Director's remuneration is calculated in accordance with the requirements of Commercial Companies Law, as amended and Capital Market Authority of the Sultanate of Oman.

3.23 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses including revenue and expenses that relate to transactions with any of the Bank's other components whose operating results are reviewed regularly by the management to make decisions about the resources allocated to each segment and assesses its performance and for which discrete financial information is available. The Bank's primary format for reporting segmental information is business segment, based upon management internal reporting structure. The Bank's main business segments are comprised of retail, corporate and treasury and investment banking.

3.24 Taxation

Taxation is provided for based on the tax laws of Sultanate of Oman. Income tax comprises current and deferred tax. Income tax expense is recognised in statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.25 Earnings prohibited by Shari'a

The Bank is committed to avoid recognising any income generated from Sharia non-compliant sources. Accordingly, all Shari'a non-complaint income is credited to a charity fund and the Bank disburses these funds according to the Shari'a Supervisory Board supervision and instructions.

3.26 Zakah

Calculation and payment of Zakah is the responsibility of individual Shareholders' and accountholders.

3.27 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of the Bank which meets quarterly and consists of three prominent Shari'a scholars appointed by the General Assembly of Shareholders.

- Sheikh Dr. Mohammed Al-Gharbi	Chairman
- Late Dr. Abdul-Sattar Abu Ghuddah	Chairman until October 2020
- Dr. Aznan Hasan	Member
- Sheikh Ibrahim Al-Sawwafi	Member

3.28 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.29 Dividend on ordinary shares

Dividend on ordinary shares is recognised as liability and deducted from equity in the period when it is approved by the Bank's shareholders. Interim dividend is deducted from equity when they are paid.

3.30 Earnings per share (EPS)

The Bank presents basic and diluted earnings per share data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to owners and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.31 New standards, amendments and interpretations

During the period, the Bank applied the following standards and amendments in preparation of these financial statements.

FAS 31 Investment Agency (Al-Wakala Bi Al-lstithmar)

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-lstithmar) in 2018. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives.

3.32 New standards, amendments and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued by AAOIFI, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

FAS 35 Risk Reserves

AAOIFI has issued FAS 35 "Risk Reserves" in 2018. This standard along with FAS 30 'Impairment, Credit losses and onerous commitments' supersede the earlier FAS 11 "Provisions and reserves".

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs/ the institutions). This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Bank early adopts FAS 30 "Impairment, Credit losses and onerous commitments". The Bank is currently evaluating the impact of this standard.

FAS 32 Ijarah

AAOIFI has issued FAS 32 "Ijarah" in 2020. This standard supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". The objective of this standard is set out principles for the classification, recognition, measurement, presentation and disclosure for Ijarah (asset Ijarah, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic Financial Institutions as a lessor and lessee. This new standard aims to address the issues faced by the Islamic finance industry in relation to accounting and financial reporting as well as to improve the existing treatments in line with the global practices. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The Bank is currently evaluating the impact of this standard

FAS 38 Wa'ad, Khiyar and Tahawwut

AAOIFI has issued FAS 38 "Wa'ad, Khiyar and Tahawwut" in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosure in relation to Shari'ah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. Wa'ad and Khiyar are used by institutions in various forms. Some are ancillary to other transactions, whereas a few are used as primary products. This standard intends to provide accounting principles for both of these, as well as the Tahawwut transactions which are normally based on Wa'ad or Khiyar, or a series or combination thereof. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted. The Bank is currently evaluating the impact of this standard.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.32 New standards, amendments and interpretations issued but not yet effective *(continued)*

FAS 33 Investment in Sukuk, Shares and Similar Instruments

AAOIFI has issued FAS 33 "Investment in Sukuk, Shares and Similar Instruments" in 2018. This standard supersedes the earlier FAS 25 "Investment in Sukuk, Shares and Similar Instruments". The objective of this standard is to establish the principles for the classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments made by the Bank. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted. The Bank is currently evaluating the impact of this standard.

FAS 30 Impairment, Credit losses and onerous commitments

In November 2017, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Financial Accounting Standard (FAS) 30 - Impairment, credit losses and onerous commitments, the standard 1 January 2020, with early adoption permitted.

However, during the year 2017, the CBO has issued a circular BM 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments (IFRS 9) for all the banks, which also apply to Islamic banks/windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued.

In accordance with the standard, which if required by CBO, the Bank will implement AAOIFI FAS 30 with effect from 1 January 2021. The Bank is currently evaluating the impact of this standard.

4 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

	2020	2019
	RO'000	RO'000
Cash in hand	5,443	4,731
Balances with Central Bank of Oman	62,000	84,062
Capital deposit with Central Bank of Oman	500	500
	67,943	89,293

The capital deposit with the Central Bank of Oman cannot be withdrawn without the prior approval of the Central Bank of Oman.

During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves was RO 27.754 million (2019: RO 23.704 million).

All the above exposures are classified as Stage 1 as at 31 December 2020.

ECL on the cash and balances with Central Banks is not material and accordingly no adjustment has been accounted by the Bank.

5 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2020	2019
	RO'000	RO'000
Foreign banks – foreign currency	13,012	20,333
	13,012	20,333
Less: Impairment losses	(16)	(12)
Total	12,996	20,321

Movement in allowances for the credit losses is set out below:

	2020	2019
	RO'000	RO'000
Balance at beginning of year	12	6
Provided during the year (note 13)	4	6
	16	12

There have been no significant changes in due from banks and financial institutions gross balances, which have contributed to significant changes to the ECL over the year.

6 INTER-BANK WAKALA INVESTMENTS

	2020	2019
	RO'000	RO'000
Foreign banks – foreign currency	-	461
	-	461
Less: Impairment losses (note 13)	-	(6)
	-	455

The impairment losses movement against Inter-bank Wakala investments is as follow:

	2020	2019
	RO'000	RO'000
Impairment losses as at 1 January	6	-
Impairment losses during the year (note 13)	(6)	6
Balance at 31 December	-	6

7 SALES RECEIVABLES AND OTHER RECEIVABLES – NET

	Jointly-financed 2020	Self-financed 2020	Total 2020
	RO'000	RO'000	RO'000
Sales receivables (Murabaha)- retail	125,723	1,950	127,673
Sales receivables (Murabaha)- corporate	104,995	-	104,995
Istisna receivables – corporate	4,099	-	4,099
Ijara rent receivables - retail	86	-	86
Ijara rent receivables – corporate	69	-	69
Credit card receivables	2,408	-	2,408
Gross sales receivables and other receivables	237,380	1,950	239,330
Less:			
Deferred profit	(25,923)	(184)	(26,107)
Impairment losses	(3,998)	(18)	(4,016)
Reserved profit	(296)	(2)	(298)
Net sales receivables and other receivables	207,163	1,746	208,909

	Jointly-financed 2019	Self-financed 2019	Total 2019
	RO'000	RO'000	RO'000
Sales receivables (Murabaha)- retail	121,471	2,099	123,570
Sales receivables (Murabaha)- corporate	110,632	-	110,632
Istisna receivables – corporate	4,944	-	4,944
Ijara rent receivables - retail	60	-	60
Ijara rent receivables – corporate	175	-	175
Credit card receivables	2,327	-	2,327
Gross sales receivables and other receivables	239,609	2,099	241,708
Less:			
Deferred profit	(27,616)	(205)	(27,821)
Impairment losses	(2,786)	(27)	(2,813)
Reserved profit	(14)	(2)	(16)
Net sales receivables and other receivables	209,193	1,865	211,058

7 SALES RECEIVABLES AND OTHER RECEIVABLES – NET *(continued)*

The impairment losses movement against sales receivables and other receivables is as follow:

	2020	2019
	RO'000	RO'000
Balance at 1 January	2,813	1,799
Impairment losses during the year (note 13)	1,203	1,014
Balance at 31 December	4,016	2,813

The Deferred profit movement against sales receivables and other receivables is as follow:

	2020	2019
	RO'000	RO'000
Balance at 1 January	27,821	26,883
Deferred profit for the year	32	1,976
Deferred profit waived of during the year	(1,746)	(1,038)
Balance at 31 December	26,107	27,821

The reserved profit movement against sales receivables other receivables is as follow:

	2020	2019
	RO'000	RO'000
Balance at 1 January	16	21
Profit reserved / (released) during the year	282	(5)
Balance at 31 December	298	16

Total non-performing financing amounted to RO 13.286 million representing 1.32% of gross financing, as of 31 December 2020 (31 December 2019: RO 0.669 million representing 0.08% of gross financing).

8 INVESTMENT SECURITIES

	2020	2019
	RO'000	RO'000
Investment securities measured at amortised cost (note a)	2,002	2,002
Investment securities measured at FVOCI (note b)	100,208	66,331
Total before impairment losses	102,210	68,333
Less: Impairment losses (note 8a and 8b)	(191)	(236)
	102,019	68,097

a. Financial assets at amortised cost

	Self-financed	
	2020	2019
	RO'000	RO'000
Local listed sukuk	2,002	2,002
Less: Impairment losses	(23)	(9)
Total local listed sukuk at amortised cost	1,979	1,993

b. Investment securities measured at FVOCI

	Jointly-financed	
	2020	2019
	RO'000	RO'000
Financial assets at fair value through equity – debt instruments (note i)	97,482	63,190
Financial assets at fair value through equity – equity instruments (note ii)	2,726	3,141
Total before impairment losses	100,208	66,331
Less: Impairment losses	(168)	(227)
	100,040	66,104

8 INVESTMENT SECURITIES *(continued)*

i. Investment securities measured at FVOCI – debt instruments

	2020	2019
	RO'000	RO'000
Quoted investments	76,374	35,932
Government Sukuk	3,958	3,958
Corporate Sukuk		
Unquoted investments	17,150	23,300
Government Sukuk	97,482	63,190
	(168)	(227)
Less: Impairment losses	97,314	62,963

ii. Investment securities measured at FVOCI – Equity instruments

	2020	2019
	RO'000	RO'000
Regional un-listed funds	2,385	2,801
Regional un-listed shares	284	280
Local listed shares	57	60
Total	2,726	3,141

8.1 Financial assets at fair value through equity

	Jointly-financed	
	Cost	Fair value
	2020	2020
	RO'000	RO'000
International un-listed Sukuk	16,555	16,555
Regional un-listed Sukuk	595	595
Regional listed Sukuk	196	206
Regional un-listed funds	4,061	2,385
Regional un-listed shares	334	284
Local rated listed Sukuk	74,471	76,168
Local Unrated listed Sukuk	3,958	3,958
Local listed shares	48	57
Less: Impairment losses (note 8.i)	-	(168)
	100,218	100,040

	Cost	Fair value
	2019	2019
	RO'000	RO'000
International un-listed Sukuk	21,831	21,834
International listed Sukuk	386	387
Regional un-listed Sukuk	1,466	1,466
Regional listed Sukuk	1,750	1,774
Regional un-listed funds	4,394	2,801
Regional un-listed shares	334	280
Local rated listed Sukuk	33,314	33,771
Local Unrated listed Sukuk	3,958	3,958
Local listed shares	48	60
Less: Impairment losses (note 8.i)	-	(227)
	67,481	66,104

8 INVESTMENT SECURITIES *(continued)*

8.1 Financial assets at fair value through equity *(continued)*

The impairment losses against investments are as follow:

	2020	2019
	RO'000	RO'000
Balance at 1 January	**236**	228
Impairment losses during the year (note 13)	**(45)**	8
Balance at 31 December	**191**	236

9 Musharaka financing - net

	2020		
	Jointly-financed	**Self-financed**	**Total**
	RO'000	**RO'000**	**RO'000**
Musharaka financing corporate	**130,811**	**-**	**130,811**
Musharaka financing retail	**47,954**	**2,492**	**50,446**
	178,765	**2,492**	**181,257**
Less: Impairment losses	**(4,599)**	**(6)**	**(4,605)**
Net investment in Musharaka financing	**174,166**	**2,486**	**176,652**

	2019		
	Jointly-financed	Self-financed	Total
	RO'000	RO'000	RO'000
Musharaka financing corporate	100,338	-	100,338
Musharaka financing retail	18,278	1,505	19,783
	118,616	1,505	120,121
Less: Impairment losses	(3,461)	(1)	(3,462)
Net investment in Musharaka financing	115,155	1,504	116,659

The Impairment losses movement against Musharaka as follow:

	2020	2019
	RO'000	RO'000
Balance at 1 January	3,462	1,056
Impairment losses during the year (note 13)	1,143	2,406
Balance at 31 December	4,605	3,462

10 INVESTMENT IN REAL ESTATE

This represents investment in income generating industrial real estate; where 70% of the beneficial ownership is held by the Bank for a consideration of RO 14.175 million. Subsequently, the property has been leased under a master lease agreement for a period of ten years with a fixed rental amount.

Investment in real estate has been financed from Shareholders' funds and classified as self-finance investment and not included in the Mudaraba pool 'commingled pool'. All profits generated and costs in relation to the investment will be for the account of the Bank only and not subject to income distribution for the unrestricted investment accountholders.

The Bank follows sales comparison and investment approach based valuation methodology and management believes that the fair value of investment in real estate is not materially different from its carrying value as at 31 December 2020. The valuation of asset is reviewed on regular basis to make necessary adjustment where required. At a minimum valuation is done once every three years basis either by engaging an external agency or through an independent internal unit.

11 IJARA MUNTAHIA BITTAMLEEK - NET

	2020		
	Jointly-financed	Self-financed	Total
	RO'000	RO'000	RO'000
Real estate			
Cost	327,275	14,035	341,310
Accumulated depreciation	(48,736)	(2,217)	(50,953)
Net book value	278,539	11,818	290,357
Equipment			
Cost	22,371	-	22,371
Accumulated depreciation	(7,489)	-	(7,489)
Net book value	14,882	-	14,882
Total cost	349,646	14,035	363,681
Accumulated depreciation	(56,225)	(2,217)	(58,442)
Net book value before impairment losses	293,421	11,818	305,239
Less: Impairment losses	(1,306)	(28)	(1,334)
Net book value after impairment losses	292,115	11,790	303,905

	2019		
	Jointly-financed	Self-financed	Total
	RO'000	RO'000	RO'000
Real estate			
Cost	335,171	13,328	348,499
Accumulated depreciation	(45,427)	(1,725)	(47,152)
Net book value	289,744	11,603	301,347
Equipment			
Cost	34,584	-	34,584
Accumulated depreciation	(16,972)	-	(16,972)
Net book value	17,612	-	17,612
Total cost	369,755	13,328	383,083
Accumulated depreciation	(62,399)	(1,725)	(64,124)
Net book value before impairment losses	307,356	11,603	318,959
Less: Impairment losses	(809)	(16)	(825)
Net book value after impairment losses	306,547	11,587	318,134

The impairment losses movement against Ijara Muntahia Bittamleek is as follow:

	2020	2019
	RO'000	RO'000
Balance at 1 January	825	1,675
Impairment created / (released) during the year (note 13)	509	(850)
Balance at 31 December	1,334	825

12 WAKALA BIL ISTETHMAR – NET

The impairment losses / general provision movement against Wakala Bil Istethmar as follow:

	Jointly-financed	
	2020	2019
	RO'000	RO'000
Wakala Bil Istethmar	304,714	186,352
Less: impairment losses	(6,022)	(2,680)
Net investment in Wakala Bil Istethmar	298,692	183,672

The impairment losses movement against Wakala Bil Istethmar as follow:

	2020	2019
	RO'000	RO'000
Balance at 1 January	2,680	2,179
Impairment losses during the year	3,342	501
Balance at 31 December	6,022	2,680

13 IMPAIRMENT LOSSES PROVISION MOVEMENT

	2020	2019
	RO'000	RO'000
Balance at 1 January	11,022	8,451
Impairment losses / (reversals) during the year for:		
Sales and other receivables (note 7)	1,203	1,014
Ijara Muntahia Bittamleek (note 11)	509	(850)
Wakala Bil Istethmar (note 12)	3,342	501
Musharaka financing (note 9)	1,143	2,406
Investments (note 8)	(45)	8
Due from banks (note 5)	4	6
Inter-bank Wakala investments (note 6)	(6)	6
Non-funded facilities (note 20)	550	(520)
Total impairment losses	6,700	2,571
Balance at 31 December	17,722	11,022

14 PROPERTY AND EQUIPMENT - NET

2020	Furniture & fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January	4,613	1,051	131	2,195	52	8,042
Additions	108	105	35	140	75	463
Transfers	127	-	-	-	(127)	-
Balance at 31 December	4,848	1,156	166	2,335	-	8,505
Accumulated depreciation at 1 January	(3,416)	(782)	(98)	(1,871)	-	(6,167)
Depreciation expense	(292)	(116)	(16)	(134)	-	(558)
Accumulated depreciation at 31 December	(3,708)	(898)	(114)	(2,005)	-	(6,725)
Carrying value at 31 December	1,140	258	52	330	-	1,780

14 PROPERTY AND EQUIPMENT - NET *(continued)*

2019	Furniture & fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January	4,434	988	131	2,038	10	7,601
Additions	75	63	-	157	146	441
Disposal	104	-	-	-	(104)	-
Balance at 31 December	4,613	1,051	131	2,195	52	8,042
Accumulated depreciation at 1 January	(3,115)	(641)	(83)	(1,733)	-	(5,572)
Depreciation expense	(301)	(141)	(15)	(138)	-	(595)
Accumulated depreciation at 31 December	(3,416)	(782)	(98)	(1,871)	-	(6,167)
Carrying value at 31 December	1,197	269	33	324	52	1,875

15 INTANGIBLE ASSETS

2020	Software	Capital work in progress	Total
	RO'000	RO'000	RO'000
Carrying value at 1 January	2,175	192	2,367
Additions	191	79	270
Transfers	78	(78)	-
Amortisation	(373)	-	(373)
Carrying value at 31 December	2,071	193	2,264

2019	Software	Capital work in progress	Total
	RO'000	RO'000	RO'000
Carrying value at 1 January	1,838	424	2,262
Additions	252	169	421
Transfers	401	(401)	-
Amortisation	(316)	-	(316)
Carrying value at 31 December	2,175	192	2,367

16 OTHER ASSETS

	2020	2019
	RO'000	RO'000
Deferred tax asset	-	174
Profit receivable	15,894	6,601
Advance payment	-	489
Prepaid expense	378	518
Refundable deposits	83	83
Inventory	48	44
Asset seized by bank	243	243
Others	278	106
	16,924	8,258

17 INTER-BANK WAKALA

	2020	2019
	RO'000	RO'000
Local banks – local currency	**36,000**	11,000
Local banks – foreign currency	**30,800**	34,650
Foreign banks – local currency	**8**	96
Foreign banks – foreign currency	**25,025**	21,079
	91,833	66,825

18 CUSTOMERS' WAKALA

Under Wakala arrangement, Bank accepts funds from investors as Wakeel and invests in Sharia compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Bank as Wakeel. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala agreement, otherwise the loss would be borne by the investor or Muwakkil.

19 CUSTOMERS' ACCOUNTS

	2020	2019
	RO'000	RO'000
Current accounts	**111,986**	97,278
Margin accounts	**93,016**	51,965
	205,002	149,243

20 OTHER LIABILITIES

	2020	2019
	RO'000	RO'000
Payment orders	**6,231**	3,942
Creditors and accruals	**13,414**	9,882
Profit payable	**5,837**	5,944
Expected credit loss on non-funded facilities (note 13)	**1,538**	988
Tax liability	**1,899**	68
Others	**1,258**	1,318
	30,177	22,142

21 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

	2020	2019
	RO'000	RO'000
Unrestricted investment accountholders	**365,738**	310,071
Investment fair value reserve	**(2)**	(255)
Investment risk reserve	**355**	580
	366,091	310,396

Unrestricted investment accounts comprise Mudaraba deposits accepted by the Bank. The funds received from equity of unrestricted investment accountholders have been commingled and jointly invested by the Bank.

The Bank has utilised full amount of profit equalisation reserve during the current year.

21 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS *(continued)*

21.1 Basis of distribution of profit between owners' equity and unrestricted investment accountholders

The investment profits have been distributed between owners' equity and unrestricted investment accountholders for the year 2020 and 2019 as follows:

	2020 Percentage	2019 Percentage
Unrestricted investment accountholders share	**50%**	50%
Mudarib share	**50%**	50%

The investment risk reserve at nil percent (2019: 2 percent) is deducted from customers' share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalisation reserve is the amount the Bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner equity and unrestricted investment accountholders.

The percentages of the profit allocation between owners' equity and unrestricted investment accountholders are as follows:

Account type	Participation factor		2020 average rate of return	2019 average rate of return
	RO'000	USD	RO'000	RO'000
Saving account	20% - 80%	15% - 30%	**1.02%**	1.07%
One month tenure	46% - 50%	23%-25%	**1.40%**	1.40%
Three months tenure	51% - 55%	25.5% - 27.5%	**1.53%**	1.53%
Six months tenure	61% - 68%	30.5% - 34%	**1.88%**	1.90%
Nine months tenure	66% - 73%	33% - 36.5%	**2.02%**	2.02%
One year tenure	71% - 78%	35.5% - 39%	**2.33%**	2.64%
One year and a half tenure	78.5% - 85%	-	**3.21%**	3.21%
Two years tenure and above	79.5% - 87%	-	**3.69%**	3.16%

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

a. **Equity of unrestricted investment accountholders details**

Account type	2020	2019
	RO'000	RO'000
Saving account	**273,775**	199,337
Investment accounts:		
One month	**83**	272
Three months	**729**	687
Six months	**1,854**	1,772
Nine months	**246**	267
One year	**24,386**	23,461
One and a half year	**3,571**	4,126
Two years	**57,488**	78,424
Three years	**332**	230
Four years	**113**	18
Five years	**864**	518
More than five years	**2,297**	959
	365,738	310,071

22 PAID-UP CAPITAL

The authorised share capital of the Bank is RO 300,000,000 and the issued and paid up capital is OMR 150,000,000, divided into 1,500,000,000 shares of a nominal value of RO 0.100 each.

Aflaj Financial Investment LLC is the only shareholder which owns 10% or more of the Bank's shares. On 31 December 2020 shareholding of Aflaj Financial Investment LLC was 186,340,106 shares equivalent to 12.4% (31 December 2019: No shareholders were holding more than 10%).

23 SHARE PREMIUM

This represent share premium of RO 2,091,192 on issue of the shares of the Bank through Initial Public Offering (IPO). Expenses incurred on issuance were netted off.

24 RESERVES

24.1 Investment fair value reserve

The fair value reserve includes the cumulative net change in fair value of the investment at fair value through equity.

24.2 Legal reserve

	2020	2019
	RO'000	RO'000
1 January	2,159	1,141
Appropriation for the year	1,107	1,018
31 December	3,266	2,159

In accordance with the Commercial Companies Law of 2019, annual appropriation of 10% of the profit for the year is required to be made to legal reserve until such time that accumulated reserve equals to one third of the Bank paid up capital. This reserve is not available for distribution.

25 DIVIDEND PROPOSED

The Board of Directors in their meeting held on 28th January 2021 have proposed a cash dividend of 2.5% (RO 3.750 million) from the retained earnings for the year 2020 (2019: nil) subject to the approval of Central Bank of Oman, Capital Market Authority and Shareholders. The bank received Central Bank of Oman approval for total cash dividend of 1.25% (RO 1.875 million). a resolution of dividend distributions will be presented to the shareholders at the Annual General Meeting which will be held on 28 March 2021.

Post dividend distribution, the Capital Adequacy Ratio will reduce from 13.68% to 13.53% (2019: 14.46%) against a minimum regulatory requirement of 12.25% (as per CBO circular Ref. BSD/CB/2020/005 dated June 3, 2020, reduced from 13.5% previously applicable as part of the relief package). Common Equity Tier-1 ratio will reduce from 12.78% to 12.63% (2019: 13.75%), Tier 1 Ratio will reduce from 12.78% to 12.63% (2019: 13.75%).

26 CONTINGENT LIABILITIES AND COMMITMENTS

a) Contingent liabilities

	2020	2019
	RO'000	RO'000
Letters of guarantee	109,311	116,876
Letters of credit	115,048	17,795
Acceptances	880	6,580
Bills for collection	513	1,128
Total contingent liabilities (a)	225,752	142,379

The table below analysis the concentration of contingent liabilities by economic sector:

	2020	2019
	RO'000	RO'000
Construction	76,834	72,942
Manufacturing	5,909	14,703
Service	114,235	9,201
Others	28,774	45,533
	225,752	142,379

26 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

b) Commitments

	2020	2019
	RO'000	RO'000
Unutilised limits	110,834	181,478
Total commitments (b)	110,834	181,478
Total contingent liabilities and commitments (a+b)	336,586	323,857

27 SALES RECEIVABLES AND OTHER RECEIVABLES REVENUE

	Jointly-financed	
	2020	2019
	RO'000	RO'000
Retail	6,268	5,884
Corporate	5,581	5,675
	11,849	11,559

28 IJARA MUNTAHIA BITTAMLEEK REVENUE

	Jointly-financed	
	2020	2019
	RO'000	RO'000
Ijara Muntahia Bittamleek – real estate	49,131	63,753
Ijara Muntahia Bittamleek – equipment	4,909	8,640
Depreciation on Ijara Muntahia Bittamleek assets	(37,783)	(55,407)
	16,257	16,986

29 PROFIT FROM INTER-BANK WAKALA INVESTMENT

	Jointly-financed	
	2020	2019
	RO'000	RO'000
Inter-bank Wakala local	132	178
Inter-bank Wakala foreign	12	4
	144	182

30 PROFIT FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY

	Jointly-financed	
	2020	2019
	RO'000	RO'000
Profit on Sukuk	**3,571**	2,123
Profit on funds investment	**101**	109
Gains on sale of Sukuk and investment funds	**88**	10
	3,760	2,242

31 RETURN ON UNRESTRICTED INVESTMENT ACCOUNTHOLDERS BEFORE THE BANK'S SHARE AS A MUDARIB

	2020	2019
	RO'000	RO'000
Saving accounts	**8,169**	7,183
Investment accounts	**6,868**	7,346
Investment risk reserve	**-**	145
	15,037	14,674

32 BANK'S INCOME FROM ITS OWN INVESTMENTS AND FINANCING

	2020	2019
	RO'000	RO'000
Rental income from investment in real estate	**1,134**	1,049
Profit from financial assets at amortised cost	**130**	130
Sales receivables revenue	**60**	59
Musharaka financing revenue	**56**	15
Ijara Muntahia Bittamleek revenue - net of depreciation	**302**	301
	1,682	1,554

33 REVENUE FROM BANKING SERVICES

	2020	2019
	RO'000	RO'000
Commissions income	**1,060**	1,211
Processing fees	**3,095**	2,788
Service charges	**1,359**	1,397
	5,514	5,396

34 OPERATING EXPENSES

	2020	2019
	RO'000	RO'000
Staff cost	12,251	11,833
Rent expense	976	930
Advertisement	1,508	799
Operational leasing	123	132
Maintenance expense	911	905
Security and cleaning	267	252
Professional and consulting charges	237	184
Boards expenses	132	125
Government fee	161	168
Printing and stationery	98	114
Telephone, electricity and water	615	516
Traveling expense	29	93
Subscription expense	113	102
Cards expense	974	994
Others	330	372
	18,725	17,519

35 INCOME TAX

35.1 *Recognised in the statement of income*

	2020	2019
	RO'000	RO'000
Current tax liability	1,904	68
Reversal of deferred tax asset	(73)	1,746
Income tax expense	1,831	1,814

The Bank is subject to income tax at the rate of 15% of taxable profits (2019 - 15%). The tax losses are available to carry forward for a period of 5 years and will be utilised against the future taxable profits.

35.2 *Reconciliation*

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	2020	2019
	RO'000	RO'000
Profit as per financial statements	12,898	11,993
Tax asset at the rate mentioned above	1,935	1,799
Non-deductible expenses and other permanent differences	(31)	15
Deferred tax recognised from previous years	(73)	-
	1,831	1,814

35.3 *Net deferred tax asset routed through statement of income are attributable to the following items:*

Deferred tax asset are attributable to the following items:

	As at 1 Jan 2020	Recognised in income	Unrecognised in income	As at 31 Dec 2020
	RO'000	RO'000	RO'000	RO'000
Property, plant and equipment	(279)	279	-	-
Other provision	11	(11)	-	-
Losses carried forward	268	(268)		-
Net deferred tax asset	-	-	-	-

35 INCOME TAX *(continued)*

35.3 Net deferred tax asset routed through statement of income are attributable to the following items (continued)

	As at 1 Jan 2019	Recognized in income	Unrecognized in income	As at 31 Dec 2019
	RO'000	RO'000	RO'000	RO'000
Property, plant and equipment	(286)	7	-	(279)
Other provision	28	(17)	-	11
Losses carried forward	2,005	(1,737)		268
Net deferred tax asset	1,747	(1,747)	-	-

Deferred tax assets and liabilities routed through owner's equity is attributable to investment fair value reserve as of 31 December 2020 amounted to Nil (December 2019: RO 174,265).

36 NET ASSETS PER SHARE

Net assets per share is calculated by dividing the net assets at the year-end by number of shares outstanding at the end of reporting period

	2020	2019
	RO'000	RO'000
Net assets (RO'000)	**159,688**	147,907
Number of shares outstanding (note 22)	**1,500,000,000**	1,500,000,000
Net assets per share	**0.106**	0.099

37 EARNINGS PER SHARE- BASIC AND DILUTED

The calculation of basic and diluted earnings per share is based on the profit for the year attributable to ordinary shareholders is as follows:

Profit for the year (RO'000)	**11,067**	10,179
Weighted average number of shares outstanding during the year	**1,500,000,000**	1,500,000,000
Earnings per share- basic and diluted	**0.007**	0.007

Earnings per share basic and diluted has been derived by dividing profit for the year attributable to the shareholders' by weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is same as the basic earnings per share.

38 SEGMENT REPORTING

For management purposes, the Bank is organised into three operating segments based on business units and are as follows:

Retail banking offers various products and facilities to individual customers to meet everyday banking needs.

Corporate banking delivers a variety of products and services to corporate and SMEs customers that includes financing, accepting deposits, trade finance and foreign exchange.

Treasury and investment banking provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk, in addition to asset management corporate advisory and investment products high net worth individuals and institutional clients.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on an overall basis and are not allocated to operating segments.

38 SEGMENT REPORTING *(continued)*

Segment information is as follows:

	Retail banking	Corporate banking	Treasury & investment	Others	Total
31 December 2020	RO'000	RO'000	RO'000	RO'000	RO'000
Total revenue (joint)	21,057	29,791	3,904	-	54,752
Return on unrestricted investment accountholders	(1,627)	(7,364)	-	1,388	(7,603)
Profit paid on Wakala	(5,342)	(8,969)	(1,455)	-	(15,766)
Bank's share in income from investment as a Mudarib and Rabul Maal	14,088	13,458	2,449	1,388	31,383
Bank's income from its own investments and financing	-	-	1,264	418	1,682
Other operating income	1,337	4,486	366	-	6,189
Total revenue	15,425	17,944	4,079	1,806	39,254
Staff cost	(7,482)	(3,888)	(881)	-	(12,251)
Other operating expense	(4,550)	(1,524)	(400)	-	(6,474)
Depreciation and amortisation	(724)	(174)	(33)	-	(931)
Total expense	(12,756)	(5,586)	(1,314)	-	(19,656)
Profit before provisions and tax	2,669	12,358	2,765	1,806	19,598
Impairment losses	(137)	(6,610)	47	-	(6,700)
Profit before tax	2,532	5,748	2,812	1,806	12,898
Income tax	-	-	-	(1,831)	(1,831)
Profit for the year	2,532	5,748	2,812	(25)	11,067
Total assets	420,066	568,092	197,133	20,968	1,206,259
Total liabilities and equity of unrestricted investment accountholders	455,787	468,421	91,833	30,530	1,046,571

	Retail banking	Corporate banking	Treasury & investment	Others	Total
31 December 2019	RO'000	RO'000	RO'000	RO'000	RO'000
Total revenue (joint)	19,440	25,516	2,423	-	47,379
Return on unrestricted investment accountholders	(3,755)	(5,107)	-	1,358	(7,504)
Profit paid on Wakala	(3,478)	(9,752)	(1,042)	-	(14,272)
Bank's share in income from investment as a Mudarib and Rabul Maal	12,207	10,657	1,381	1,358	25,603
Bank's income from its own investments and financing	-	-	1,179	375	1,554
Other operating income	1,491	3,945	425	-	5,861
Total revenue	13,698	14,602	2,985	1,733	33,018
Staff cost	(7,319)	(3,653)	(861)	-	(11,833)
Other operating expense	(4,238)	(1,152)	(296)	-	(5,686)
Depreciation and amortisation	(716)	(165)	(30)	-	(911)
Total expense	(12,273)	(4,970)	(1,187)	-	(18,430)
Profit before provision and tax	1,425	9,632	1,798	1,733	14,588
Impairment loss	(238)	(2,335)	(22)	-	(2,595)
Profit before tax	1,187	7,297	1,776	1,733	11,993
Income tax	-	-	-	(1,814)	(1,814)
Profit after tax	1,187	7,297	1,776	(81)	10,179
Total assets	383,306	446,217	192,341	12,500	1,034,364
Total liabilities and equity of unrestricted investment accountholders	381,919	415,247	66,607	22,684	886,457

39 FINANCIAL INSTRUMENTS

(a) Fair values of financial instruments

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying value and fair value estimates. As at the reporting date the fair values of the Bank's financial instruments are not significantly different from their carrying values.

(b) Fair values of financial instruments valuation hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. This fair value disclosure is divided into three levels as follows:

Level 1 portfolio

Level 1 assets and liabilities are typically exchange -traded positions and some government bonds traded in active markets. These positions are valued using unadjusted quoted prices in active markets.

Level 2 portfolio

Fair value is determined using valuation techniques based on valuation models with directly or indirectly market observable inputs. These valuation techniques include discounted cash flow analysis models, option pricing models, simulation models and other standard models commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as level 2.

Level 3 portfolio

Level 3 assets are valued using techniques similar to those outlined for level 2, except that if the instrument has one or more inputs that are unobservable and significant to the fair value measurement of the instrument in its entirety, it will be classified as level 3.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Transfer between Level 1 and 2

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy of investment securities during the year.

	Level 1	**Level 2**	**Level 3**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
Financial assets at fair value through equity	**97,540**	**2,668**	**-**	**100,208**
Investment in real estate (refer note 10)	**-**	**-**	**14,175**	**14,175**
Total financial assets at 31 December 2020	**97,540**	**2,668**	**14,175**	**114,383**

	Level 1	Level 2	Level 3	Total
	RO'000	RO'000	RO'000	RO'000
Financial assets at fair value through equity	63,190	3,141	-	66,331
Investment in real estate	-	-	14,175	14,175
Total financial assets at 31 December 2019	63,190	3,141	14,175	80,506

40 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank conducts transactions with certain of its directors' and/or shareholders' and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

No impairment losses has been established in respect of the financing given to related parties.

31 December 2020	Principal shareholders	Sharia'a Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Sales receivables and other receivables	8	62	174	244
Ijara Muntahia Bittamleek	424	72	1,557	2,053
Wakala Bil Istethmar	1,850	-	-	1,850
Musharaka Financing	1,351	-	-	1,351
Customers' accounts	237	6	163	406
Unrestricted investment accountholders / Customers' wakala	1,674	2	268	1,944
Wakala Deposits	54,845	-	-	54,845

31 December 2019	Principal shareholders	Sharia'a Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Sales receivables and other receivables	11	76	167	254
Ijara Muntahia Bittamleek	432	75	1,591	2,098
Musharaka Financing	142	-	-	142
Customers' accounts	138	1	69	208
Unrestricted investment accountholders / Customers' wakala	3,044	1	127	3,172
Wakala Deposits	3,354	-	-	3,354

The ECL for exposures to related parties amount to RO 9,534 (2019: 11,939)

The statement of income includes the following amounts in relation to transactions with related parties:

31 December 2020	Principal shareholders	Sharia'a Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Profit account	121	7	37	165
Operating expenses				
- Staff expense	-	-	1,751	1,751
- Other expenses	74	58	-	132

31 December 2019	Principal shareholders	Sharia'a Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Profit account	24	7	42	73
Operating expenses				
- Staff expense	-	-	1,814	1,814
- Other expenses	63	62	-	125

41 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks. The management's aim is to achieve an appropriate balance between risk and return, and minimize potential adverse effects on its financial performance. The Bank's risk management program is designed to set out the overarching philosophy, principles, requirements and responsibilities for a sound approach to risk oversight, management and on-going internal control assurance required within the Bank. All risk management policies and systems are regularly reviewed to reflect changes in markets, products and emerging best practice. Risk management is carried out by the Bank under policies approved by the Board of Directors. Risk

41 FINANCIAL RISK MANAGEMENT *(continued)*

policies explain the Bank's underlying approach to risk management, roles and responsibilities of the key players in risk management process as well as outlines tools and techniques for management of risks. The principal risks associated with the banking business are: credit risk, market risk, liquidity risk and operational risk.

The high-level risk framework mainly addresses the following:

- The oversight of board and senior management
- Overall policy approach of the Bank to establish risk appetite/tolerance, procedures and limits
- Identification, measurement, mitigation, controlling and reporting of risks
- Risk MIS at the Bank wide level

The risk management processes have been effective throughout the year and members of Senior Management and Board of Directors have remained active and involved in maintaining risk profile of the Bank at acceptable level and adequate capital is held as per the regulatory requirements.

Credit risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from potential that a customer or counterparty's willingness to meet an obligation or its ability to meet such an obligation is impaired, resulting in an economic loss to the Bank. Credit risk management, administration and control are carried out by risk management teams, which report to the Board Governance, Risk and Compliance Committee. The Bank has well defined credit structures under which credit committees, comprising of senior officers with requisite banking background, critically scrutinize and sanction financing up to the delegated authority. The Bank's exposure to credit is managed on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential of risk concentration, counterparty limits, group exposure limits, and industry limits are monitored in light of changing

Counterparty and market conditions. All credit decisions are taken as per the Bank's credit risk policies and CBO regulations and are monitored accordingly. For purpose of capital charge, the Bank uses Basel II Standardardized approach.

With the recent adoption of IFRS 9 standards, credit risk management has been enhanced further where more attributes have been taken into consideration, including but not limited, identifying existing emerging key risks related to industry, economics, transaction structure, terms and condition of the payments etc in assessment of ECL.

In addition to this, the Bank has also employed statistical model to incorporate related macro-economic factors including historical default rates. In absence of some important parameters or the where the information is too much deviated from the present forecast, qualitative PD overlay is used by the management after analysing the portfolio as per diagnostic tool.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank uses mathematical function which links the GDP with PD as a key input to ECL. These economic variable and their associated impact on the PD, EAD and LGD vary by financial instrument.

Types of credit risk

Credit risk arises mainly on sales receivables and other receivables, Ijara Muntahia Bittamleek, Wakala Bil Istethmar, Musharaka financing, due from banks, investment in Sukuk and securities, investments in real-estate and interbank wakala.

Sales receivable and other receivables

The Bank finances these transactions based on two structures:

1. Murabaha: In this structure, the Bank buys an asset which represents the object of the Murabaha and the Bank resells this asset to the customer (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the customer over the agreed period. The transactions are secured at all times by the object of the Murabaha (in case of real estate and auto finance) and other times by a total collateral package securing the facilities given to the client.

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

2. Istisna: This is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. Istisna is stated net of deferred profits and provision for impairment.

Ijara Muntahia Bittamleek

This is a lease whereby the legal tittle of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara Instalments are settled.

Wakala Investments

This is an investment in which the Bank, in its capacity as the "Muwakkil" (Principal) appoints the customer as "Wakeel" (Agent) to manage the invested fund amount in Sharia-compliant activities that may be entered into, as agreed, by the Wakeel on behalf of the Muwakkil. The investment amount is not guaranteed while the profit rate is anticipated and cannot be fixed. Therefore, the utmost care is taken before taking any exposure.

Musharaka financing

Musharaka means relationship established under a contract by a mutual consent of parties for profits and losses arising from a joint enterprise or venture. Investments come from all partners/shareholders and profits are distributed in the proportion mutually agreed in the contract. If one or more partners choose to become non-working or silent partners, the ratio of their profit cannot exceed the ratio which their capital investment bears to the total capital investment in Musharaka. Under the arrangement, both partners mutually agree to contribute capital for the Musharaka business activity and share any profit arising from the Asset or business activities according to a pre-agreed ratio, while loss is borne proportionate to their respective capital contribution.

Capital from the Bank (finance amount) can either be disbursed as a lump-sum amount or staggered through progressive payments, as mutually agreed by both parties in the agreement. The Musharaka Asset is co-owned by the Bank and the client proportionate to their respective capital contribution. In such a transaction, the Bank takes a risk in the Musharaka Asset to an extent of its share / capital contribution in it. The Bank's exposure (and hence the associated risk) continues to reduce over the life of the transaction, as the customer buys back units of the Bank's ownership share in the Musharaka Asset.

In case of a loss, the Bank bears the loss equivalent to its share / capital contribution in the Musharaka Asset. However, this is applicable subject to the fact that the loss has not occurred due to the gross negligence or wilful misconduct of the customer, as the Musharaka Manager, in which case, the customer shall solely be responsible for the entire loss.

The analysis of credit portfolio is given below:

(a) **Geographical concentrations**

	Assets			Liabilities		
	Gross due from banks and Interbank Wakala investment	Gross financing	Gross investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2020	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	-	1,030,540	82,185	924,208	66,800	309,715
Other GCC countries	1,705	-	3,072	-	19,250	9,824
Europe and North America	11,244	-	398	-	-	12,346
Africa and Asia	63	-	16,555	-	5,783	4,701
Total	13,012	1,030,540	102,210	924,208	91,833	336,586

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2019	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	-	865,760	39,891	785,870	45,650	300,354
Other GCC countries	1,417	1,380	5,823	11,295	17,710	7,217
Europe and North America	19,255	-	399	-	1,059	4,087
Africa and Asia	122	-	22,220	-	2,406	12,199
Total	20,794	867,140	68,333	797,165	66,825	323,857

(b) **Customer concentrations**

	Assets			**Liabilities**		
2020	**Due from banks and Interbank Wakala investment**	**Gross Financing**	**Investments in Sukuk and securities**	**Current, unrestricted IAH and customer Wakala**	**Interbank Wakala**	**Contingent liabilities and commitments**
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	**-**	**440,481**	**-**	**414,230**	**-**	**-**
Corporate	**13,012**	**590,059**	**8,685**	**131,986**	**91,833**	**241,797**
Government	**-**	**-**	**93,525**	**377,992**	**-**	**94,789**
Total	**13,012**	**1,030,540**	**102,210**	**924,208**	**91,833**	**336,586**

	Assets			Liabilities		
2019	Due from banks & Interbank Wakala investment	Gross Financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	403,520	-	351,795	-	82
Corporate	20,794	463,620	9,101	93,831	66,825	304,775
Government	-	-	59,232	351,539	-	19,000
Total	20,794	867,140	68,333	797,165	66,825	323,857

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations

	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2020	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Personal	-	440,481	-	414,230	-	-
Construction	-	105,206	-	22,862	-	110,596
Manufacturing	-	84,214	-	8,245	-	17,942
Financial services	13,012	-	-	-	91,833	-
Government	-	-	93,525	377,992	-	94,789
Other services	-	216,944	-	15,568	-	70,413
Others	-	183,695	8,685	85,311	-	42,846
	13,012	1,030,540	102,210	924,208	91,833	336,586

	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2019	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	403,520	-	351,795	-	82
Construction	-	88,527	-	33,291	-	116,713
Manufacturing	-	93,313	-	11,622	-	46,256
Financial services	20,794	-	-	-	66,825	5,451
Government	-	-	59,232	351,539	-	19,000
Other services	-	91,877	-	14,326	-	29,728
Others	-	189,903	9,101	34,592	-	106,627
	20,794	867,140	68,333	797,165	66,825	323,857

(d) Gross credit exposure

	2020	2019
	RO'000	RO'000
Gross financing	**1,030,540**	867,140
Due from banks and interbank Wakala	**13,012**	20,794
Investments in Sukuk and securities	**102,210**	68,333
Total	**1,145,762**	956,267

(e) Geographical distribution of exposures:

	Sultanate of Oman	Other countries	Total
31 December 2020	**RO'000**	**RO'000**	**RO'000**
Gross Sales receivables and other receivables	**239,330**	**-**	**239,330**
Gross Ijarah Muntahia Bittamleek	**305,239**	**-**	**305,239**
Gross Musharaka financing	**181,257**	**-**	**181,257**
Gross Wakala Bil Istethmar	**304,714**	**-**	**304,714**
Investments in Sukuk and securities	**82,185**	**20,025**	**102,210**
Due from banks and interbank Wakala	**-**	**13,012**	**13,012**
Total	**1,112,725**	**33,037**	**1,145,762**

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(e) Geographical distribution of exposures *(continued):*

	Sultanate of Oman	Other countries	Total
31 December 2019	RO'000	RO'000	RO'000
Gross Sales receivables and other receivables	241,708	-	241,708
Gross Ijarah Muntahia Bittamleek	317,580	1,379	318,959
Gross Musharaka financing	120,121	-	120,121
Gross Wakala Bil Istethmar	186,352	-	186,352
Investments in Sukuk and securities	39,891	28,442	68,333
Due from banks and interbank Wakala	-	20,794	20,794
Total	905,652	50,615	956,267

(f) Industry type distribution of exposures by major types of credit exposures:

2020	Due from banks and interbank Wakala RO'000	Gross Sales receivables and other receivables RO'000	Gross Ijarah Muntahia Bittamleek RO'000	Gross Musharaka financing RO'000	Gross Wakala Bil Istethmar RO'000	Investment in Sukuk & securities RO'000	Total RO'000	Off balance sheet exposures RO'000
Construction	-	17,270	3,627	9,097	75,212	-	105,206	110,596
Electricity, gas and water	-	14,148	278	14,856	62,989	-	92,271	27,042
Financial institutions	13,012	-	-	-	-	-	13,012	-
Services	-	21,662	3,928	17,830	81,253	-	124,673	43,371
Personal financing	-	130,168	259,867	50,446	-	-	440,481	-
Government	-	-	-	-	-	93,525	93,525	94,788
Non-resident financing	-	-	-	-	-	-	-	-
Others	-	56,082	37,539	89,028	85,260	8,685	276,348	60,789
Total	13,012	239,330	305,239	181,257	304,714	102,210	1,145,516	336,586

2019	Due from banks and interbank Wakala RO'000	Gross Sales receivables and other receivables RO'000	Gross Ijarah Muntahia Bittamleek RO'000	Gross Musharaka financing RO'000	Gross Wakala Bil Istethmar RO'000	Investment in Sukuk & securities RO'000	Total RO'000	Off balance sheet exposures RO'000
Construction	-	12,983	5,135	1,155	69,254	-	88,527	116,713
Electricity, gas and water	-	663	-	-	917	-	1,580	6,742
Financial institutions	20,794	-	-	-	-	-	20,794	5,451
Services	-	21,076	15,755	34,314	19,151	-	90,296	22,985
Personal financing	-	123,629	260,109	19,782	-	-	403,520	-
Government	-	-	-	-	-	59,232	59,232	19,000
Non-resident financing	-	-	1,380	-	-	-	1,380	-
Others	-	83,357	36,580	64,870	97,030	9,101	290,938	152,966
Total	20,794	241,708	318,959	120,121	186,352	68,333	956,267	323,857

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(g) Residual contractual maturities of the portfolio by major types of credit exposures:

2020	Gross due from banks and interbank Wakala RO'000	Gross sales receivables and other receivables RO'000	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO'000	Gross Musharaka financing RO'000	Gross Wakala Bil Istethmar RO'000	Gross investment in Sukuk & securities RO'000	Total RO'000	Off balance sheet exposures RO'000
Upto 1 month	13,012	8,544	1,274	159	11,671	17,207	51,867	102,299
1 to 3 months	-	21,381	2,577	3,812	53,254	-	81,024	21,191
3 to 6 months	-	25,972	3,951	4,091	55,816	4,471	94,301	18,686
6 to 9 months	-	21,138	3,988	4,833	32,200	-	62,159	7,195
9 to 12 months	-	18,016	4,065	4,531	13,508	2,155	42,275	66,529
1 to 3 years	-	92,301	48,447	51,581	87,379	2,002	281,710	116,800
3 to 5 years	-	35,136	45,878	55,442	39,194	53,375	229,025	1,328
Over 5 years	-	16,842	195,059	56,808	11,692	23,000	303,401	2,558
	13,012	239,330	305,239	181,257	304,714	102,210	1,145,762	336,586

2019	Due from banks and interbank Wakala RO'000	Gross sales receivables and other receivables RO'000	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO'000	Gross Musharaka financing RO'000	Gross Wakala Bil Istethmar RO'000	Investment in Sukuk & securities RO'000	Total RO'000	Off balance sheet exposures RO'000
Upto 1 month	20,794	8,316	1,712	502	17,054	4,801	53,179	20,301
1 to 3 months	-	12,697	9,665	8,423	44,140	18,559	93,484	21,342
3 to 6 months	-	33,868	4,867	3,168	25,635	563	68,101	27,252
6 to 9 months	-	13,374	4,084	3,760	22,281	0	43,499	2,888
9 to 12 months	-	23,423	6,670	3,426	15,087	10,444	59,050	186,087
1 to 3 years	-	93,042	54,232	38,102	40,840	1,599	227,815	8,192
3 to 5 years	-	38,292	49,771	27,679	9,856	20,328	145,926	2,313
Over 5 years	-	18,696	187,958	35,061	11,459	12,039	265,213	55,482
	20,794	241,708	318,959	120,121	186,352	68,333	956,267	323,857

(h) Distribution of impaired financing, past due and not past due financing by type of industry:

31 December 2020	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Personal financing	439,954	527	335	1,054
Non-resident corporate financing	-	-	-	-
Resident corporate financing	577,300	12,759	3,848	10,741
	1,017,254	13,286	4,183	11,795

31 December 2019	Performing financing RO'000	Non-performing financing RO'000	Specific provisions held RO'000	General provisions held RO'000
Personal financing	403,274	246	204	1,047
Non-resident corporate financing	1,380	-	-	6
Resident corporate financing	461,817	423	171	8,353
	866,471	669	375	9,406

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(i) Distribution of impaired financing and past due financing by geographical distribution:

	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
31 December 2020	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Sultanate of Oman	**1,017,273**	**13,286**	**4,183**	**11,795**
Other countries	**-**	**-**	**-**	**-**
Total	**1,017,273**	**13,286**	**4,183**	**11,795**

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
31 December 2019	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	865,091	669	375	9,400
Other countries	1,380	-	-	6
Total	866,471	669	375	9,406

(j) Maximum exposure to credit risk without consideration of collateral held:

	2020	2019
	RO'000	RO'000
Due from banks and interbank Wakala investments	**13,012**	20,794
Investment in Sukuk and securities	**102,210**	68,333
Gross Financing	**1,030,540**	867,140
	1,145,762	956,267
Off-balance sheet items		
Financial guarantee	**109,311**	116,876
Financial letter of credits	**115,048**	17,795
Acceptances	**880**	6,580
Bills for collection	**513**	1,128
Commitments	**110,834**	181,478
	336,586	323,857

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(k) Movement in ECL

31 December 2020	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Exposure subject to ECL (gross) 1 January 2020				
Gross financing, commitments and financial guarantees	990,644	161,455	294	1,152,393
Investment securities	62,963	-	-	62,963
Financial assets at amortised cost	1,993	-	-	1,993
Interbank wakala investments	455	-	-	455
Due from banks, central banks and other financial assets	20,321	-	-	20,321
	1,076,376	**161,455**	**294**	**1,238,125**
Net transfer between stages				
Gross financing, commitments and financial guarantees	(44,483)	219,812	12,999	188,328
Investment securities	34,519	-	-	34,519
Financial assets at amortised cost	(1,993)	2,002	-	9
Interbank wakala investments	(455)	-	-	(455)
Due from banks, central banks and other financial assets	(7,309)	-	-	(7,309)
	(19,721)	**221,814**	**12,999**	**215,092**
Exposure subject to ECL (gross) 31 December 2019				
Gross financing, commitments and financial guarantees	946,161	381,267	13,293	1,340,721
Investment securities	97,482	-	-	97,482
Financial assets at amortised cost	-	2,002	-	2,002
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	**13,012**	-	-	13,012
	1,056,655	**383,269**	**13,293**	**1,453,217**
Expected Credit Loss as at 31 December 2019				
Gross financing, commitments and financial guarantees	(4,268)	(6,125)	(375)	(10,768)
Investment securities	(227)	-	-	(227)
Financial assets at amortised cost	-	(9)	-	(9)
Interbank wakala investments	(6)	-	-	(6)
Due from banks, central banks and other financial assets	(12)	-	-	(12)
	(4,513)	**(6,134)**	**(375)**	**(11,022)**
Charge for the period (net)				
Gross financing, commitments and financial guarantees	787	(3,724)	(3,810)	(6,747)
Investment securities	59	-	-	59
Financial assets at amortised cost	-	(14)	-	(14)
Interbank wakala investments	6	-	-	6
Due from banks, central banks and other financial assets	(4)	-	-	(4)
	848	**(3,738)**	**(3,810)**	**(6,700)**
Expected Credit Loss as at 31 December 2020				
Gross financing, commitments and financial guarantees	3,481	9,849	4,185	17,515
Investment securities	168	-	-	168
Financial assets at amortised cost	-	23	-	23
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	16	-	-	16
	3,665	**9,872**	**4,185**	**17,722**
Net closing balance - as at 31 December 2020				
Gross financing, commitments and financial guarantees	942,680	371,418	9,108	1,323,206
Investment securities	97,314	-	-	97,314
Financial assets at amortised cost	-	1,979	-	1,979
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	12,996	-	-	12,996
	1,052,990	**373,397**	**9,108**	**1,435,495**

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(k) Movement in ECL (continued)

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Exposure subject to ECL (gross) 1 January 2019				
Gross financing, commitments and financial guarantees	795,315	93,387	286	888,988
Investment securities	44,499	-	-	44,499
Financial assets at amortised cost	2,002	-	-	2,002
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	6,405	-	-	6,405
	848,221	93,387	286	941,894
Net transfer between stages				
Gross financing, commitments and financial guarantees	199,597	74,192	383	274,172
Investment securities	18,691	-	-	18,691
Financial assets at amortised cost	-	-	-	-
Interbank wakala investments	462	-	-	462
Due from banks, central banks and other financial assets	13,928	-	-	13,928
	232,678	74,192	383	307,253
Exposure subject to ECL (gross) 31 December 2019				
Gross financing, commitments and financial guarantees	994,913	167,579	669	1,163,161
Investment securities	63,190	-	-	63,190
Financial assets at amortised cost	2,002	-	-	2,002
Interbank wakala investments	461	-	-	461
Due from banks, central banks and other financial assets	20,333	-	-	20,333
	1,080,899	167,579	669	1,249,147
Expected Credit Loss as at 31 December 2019				
Gross financing, commitments and financial guarantees	(4,506)	(3,514)	(198)	(8,218)
Investment securities	(219)	-	-	(219)
Financial assets at amortised cost	(9)	-	-	(9)
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	(5)	-	-	(5)
	(4,739)	(3,514)	(198)	(8,451)
Charge for the period (net)				
Gross financing, commitments and financial guarantees	238	(2,611)	(177)	(2,550)
Investment securities	(8)	-	-	(8)
Financial assets at amortised cost	-	-	-	-
Interbank wakala investments	(6)	-	-	(6)
Due from banks, central banks and other financial assets	(7)	-	-	(7)
	217	(2,611)	(177)	(2,571)
Expected Credit Loss as at 31 December 2019				
Gross financing, commitments and financial guarantees	(4,268)	(6,125)	(375)	(10,768)
Investment securities	(227)	-	-	(227)
Financial assets at amortised cost	(9)	-	-	(9)
Interbank wakala investments	(6)	-	-	(6)
Due from banks, central banks and other financial assets	(12)	-	-	(12)
	(4,522)	(6,125)	(375)	(11,022)
Net closing balance - as at 31 December 2019				
Gross financing, commitments and financial guarantees	990,645	161,454	294	1,152,393
Investment securities	62,963	-	-	62,963
Financial assets at amortised cost	1,993	-	-	1,993
Interbank wakala investments	455	-	-	455
Due from banks, central banks and other financial assets	20,321	-	-	20,321
	1,076,377	161,454	294	1,238,125

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(l) Outbreak of Coronavirus (COVID-19)

The World Health Organization officially declared COVID-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the bank have witnessed rapid changes as a result of the unprecedented outbreak of Coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries & sectors.

Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of country's economy. These measures include deferral of financing instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc (refer CBO circular no. BSD/CB/2020/001for details). These measures have been extended until 31 March 2021.

Impact of COVID-19 on the Bank

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration are given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, does not automatically lead to financing being measured on the basis of lifetime losses and considerable judgment will be needed to measure ECLs at this time. When it is not possible to reflect such information in the models, post-model overlays or adjustments are considered. This is also broadly consistent with guidelines issued by other regulators including those issued by the CBO.

Additional IFRS 9 guidelines issued by the CBO stipulates:

- CBO's measures related to deferment of financing repayment by a borrower may not on its own trigger the counting of 30 Days Past Due (DPD) or more backstop used to determine SICR or the 90 DPD backstop used to determine default. However, banks shall continue to assess the obligor's likelihood of payment of amount due after the deferment period, and in case of SICR or credit impairment and if the same is not of a temporary nature, accordingly fairly recognize such risk.

- The deferment of repayment by borrowers may indicate short term liquidity or cash flow problems and hence the deferment of finance repayment may not be a sole deciding factor for SICR or impairment until and unless banks and FLC's might have experienced other supportable evidence on having deterioration in the credit quality of the obligor.

- Similarly, any covenant breach having particular relevance to COVID-19 e.g. delay in submission of audited financial accounts or any other breach, may be considered differently than normal breaches related to consistent borrower specific risk factors leading to borrowers default. This sort of breach may not necessarily and automatically trigger SICR resulting in moving accounts to Stage-2.

- Banks and FLCs must develop estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions consideration should be given both to the effects of COVID-19 coupled with oil prices & significant CBO policy measures being undertaken.

- Nevertheless, any changes made to ECL estimate the impact of COVID-19 distress will be subject to very high levels of uncertainty as reasonable and supportable forward-looking information may not be currently available to substantiate those changes. As such, the macro-economic forecasts applied by the banks and FLCs in their IFRS 9 models couldn't be recalibrated upfront with pre-mature effects of COVID-19 and CBO support measures, besides the individual and collective LGD's may get impacted due to COVID-19 effect on market prices of collateral and guarantees. However, Banks and FLCs are expected to use post model adjustments and management overlays by applying multiple macroeconomic scenarios with careful application of probability weights to each of such scenarios while computing ECL on portfolio basis as prudence.

  The Bank closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors. SME customers are evaluated based on the stability of the business owner and business and any short-term cash flow mismatches are supported by the Bank.

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(l) Outbreak of Coronavirus (COVID-19) *(continued)*

Bank's retail portfolio largely comprises of nationals employed in government sector and hence this segment is expected to largely remain insulated from job cuts and salary reductions. Retail lending to private sector employees which forms a small proportion of banks total retail portfolio is expected to witness some impact in the short to medium term due to the pandemic and hence could lead to potential credit issues. The bank is fully committed to help its customers through this turbulent period as directed by the CBO. The Bank continued to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic. The Bank continually reviews its precautionary and administrative measures in response to changes on the ground.

Impact on SICR

The exercise of the deferment option by a customer, in its own, is not considered by the Bank as triggering SICR. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

Impact on ECL:

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Bank expects that post-model adjustments will be applied for the foreseeable future.

Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December 2020 are set out as follows:

As on the reporting date the collective provision held by the bank through management overlays amounts to 8.6% of total impairment based on latest available PD term structure and macro-economic forecasts. This is in addition to the existing ECL provision considered on a conservative practices to mitigate any unforeseen impacts in the portfolio. The Bank will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

Management overlays

Given the ever evolving nature of the current health and economic crisis, the banks management is of the view that the forward looking macro-economic data and the PD term structures published by the economists and rating agencies during 2020 is yet to reasonably reflect the impact of the economic disruption caused by COVID-19 and also to fully factor in the financial intervention by the relevant state authorities.

Hence, based on guidance, as a measure of prudence, wherever necessary, the bank has applied post model adjustments and management judgment overlays, while computing its ECL with an intention to collectively cover the:

- Customer, industry, sector specific evolving credit risk and appetite,
- Impact of recent external ratings and resultant change in the PD term structures,
- Impact of COVID-19 & depressed oil prices available in latest forward-looking information and
- mitigating impacts of government support measures to the extent possible

In determining above, the management has considered following assumptions:

- Oil price used by the Bank around $45 (31 December 2019: $58/bbl)

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(l) Outbreak of Coronavirus (COVID-19) *(continued)*

Scenario weightages used by the Bank

Scenario weightings of 90%, 10%, 0% for Base, Downside and Upside scenarios (31 December 2019: 90%, 10%, 0%).

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2020 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

Sensitivity of impairment estimates	ECL Dec-20	ECL Dec-19
ECL on non-impaired financing under IFRS9	RO'000	RO'000
Simulations		
Upside case - 100% weighted	**12,797**	10,531
Base case - 100% weighted	**12,797**	10,531
Downside scenario - 100% weighted	**20,204**	10,722

Accounting for modification loss and government grant

The Bank has allowed deferment of financial obligation of certain customers for a period of six months in line with the CBO circular issued in March 2020. Further deferment was issued by CBO in September 2020 for a period of six months in which local banks in Sultanate of Oman have been encouraged to delay financing repayments for affected customers.

Stage-wise analysis of customers benefiting from payment deferrals

The following table contains an analysis of the deferred amount of principal outstanding and accrued profit to the customers, who have been provided with such benefits, and the related ECL:

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Gross Finance and off-balance sheet facilities				
Off–balance sheet exposures				
Total exposure to customers benefiting from payment deferrals	387,723	230,101	12,847	630,671
Total ECL on exposure to customers benefiting from payment deferrals	2,358	8,525	3,890	14,773
Of Which:				
Deferred amount	38,743	57,067	301	96,111
Allowances for impairment (ECL)	2,358	8,525	3,890	14,773
Carrying amount	385,365	221,576	8,957	615,898

Impact on the Capital Adequacy

The bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. The impact of above filter on the bank's regulatory capital is 18 bps.

Although above measures are not exhaustive and may not fully counteract the impact of COVID-19 in the short run, they will mitigate the long-term negative impact of the pandemic. In response to this crisis, the Bank continues to monitor and respond to all liquidity and funding requirements. As at the reporting date the liquidity, funding and capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

(m) Exposure at default methodology

The exposure at default is used to measure the lifetime expected credit losses and 12-month expected credit losses. The Bank measures expected credit losses at a client level for wholesale banking and at pool level for retail. It also includes expected credit losses on the undrawn commitment component from those on the financing component. It recognizes expected credit losses for the undrawn commitment together with the loss allowance for the financing component in the statement of financial position. To the extent that the combined expected credit losses exceed the gross carrying

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(m) Exposure at default methodology *(continued)*

amount of the financial asset, the expected credit losses is presented as a provision. For undrawn commitment, Credit Conversion Factor (CCF) to convert commitment to on-balance sheet where cancellable limits have 20% CCF and for uncancellable committed facility has 100%. For all off-balance sheet exposure, CCF is applied according to the type of facility.

(n) Credit quality

The credit quality of financial assets is managed by the Bank using internal and external credit risk ratings. The Bank follows an internal rating mechanism for grading relationship across its credit portfolio. The Bank utilizes a scale ranging from 1 to 10 for credit relationship with 1 to 7 denoting performing grades, 8, 9 and 10 denoting non-performing. All credits are assigned a rating in accordance with defined criteria.

The Bank endeavours continuously to improve upon internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Bank. All financing relationships are reviewed at least once in a year and more frequently in case of non-performing assets.

The following table provides the details for the credit quality financial assets subject to ECL:

	2020			
	Stage 1	Stage 2	Stage 3	Total
31 December 2020				
Performing grades (Grade 1 to 7)				
Gross financing amount including off-balance sheet	946,161	381,267	-	1,327,428
ECL on Financing	(3,481)	(9,849)		(13,330)
Gross Investments	97,482	2,002	-	99,484
ECL on Investments	(168)	(23)	-	(191)
Gross Interbank	-	-	-	-
ECL on Interbank	-	-	-	-
Due from Banks, Central Banks and Other Financial Assets	13,012	-	-	13,012
ECL on Due from Banks, Central Banks and Other Financial Assets	(16)	-	-	(16)
Carrying amount	1,054,969	371,418	-	1,426,387
Gross financing amount including off-balance sheet				
ECL on Financing	-	-	13,293	13,293
Gross Investments	-	-	(4,185)	(4,185)
ECL on Investments	-	-	-	-
Gross Interbank	-	-	-	-
ECL on Interbank	-	-	-	-
Carrying amount	-	-	-	-
	-	-	9,108	9,108
Total of performing and Non-performing grades (Grade 1 - 10)				
Total gross financing amount including off-balance sheet	946,161	381,267	13,293	1,340,721
Total ECL on Financing	(3,481)	(9,849)	(4,185)	(17,515)
Total Gross Investments	97,482	2,002	-	99,484
Total ECL on Investments	(168)	(23)	-	(191)
Total Gross Interbank	-	-	-	-
Total ECL on Interbank	-	-	-	-
Due from Banks, Central Banks and other financial assets	13,012	-	-	13,012
ECL on Due from Banks, Central Banks and other financial assets	(16)	-	-	(16)
Carrying amount	1,052,990	371,418	9,108	1,435,495

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

(l) Credit quality *(continued)*

	2019			
	Stage 1	Stage 2	Stage 3	Total
Performing grades (Grade 1 to 7)				
Gross financing amount including off-balance sheet	994,913	167,579	-	1,162,492
ECL on Financing	(4,268)	(6,125)	-	(10,393)
Gross Investments	65,192	-	-	65,192
ECL on Investments	(236)	-	-	(236)
Gross Interbank	461	-	-	461
ECL on Interbank	(6)	-	-	(6)
Due from Banks, Central Banks and Other Financial Assets	20,333	-	-	20,333
ECL on Due from Banks, Central Banks and Other Financial Assets	(12)	-	-	(12)
Carrying amount	1,076,377	161,454	-	1,237,831
Non-performing grades (Grade 8 - 10)				
Gross financing amount including off-balance sheet	-	-	669	669
ECL on Financing	-	-	(375)	
Gross Investments	-	-	-	-
ECL on Investments	-	-	-	-
Gross Interbank	-	-	-	-
ECL on Interbank	-	-	-	-
Carrying amount	-	-	294	294
Total of performing and Non-performing grades (Grade 1 - 10)				
Total gross financing amount including off-balance sheet	994,913	167,579	669	1,163,161
Total ECL on Financing	(4,268)	(6,125)	(375)	(10,768)
Total Gross Investments	65,192	-	-	65,192
Total ECL on Investments	(236)	-	-	(236)
Total Gross Interbank	461	-	-	461
Total ECL on Interbank	(6)	-	-	(6)
Due from Banks, Central Banks and other financial assets	20,333	-	-	20,333
ECL on Due from Banks, Central Banks and other financial assets	(12)	-	-	(12)
Carrying amount	1,076,377	161,454	294	1,238,125

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

The most significant period-end assumptions used for the ECL estimate as at Dec 31, 2020 were GDP and CPI. (GDP 2020: -4%, 2021: 2%) and (CPI 2020: 103.4, 2019: 106.2).

Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

Bank's liquidity risk management is governed by the Liquidity Risk Management Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Liquidity risk policy also incorporates contingency plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The Contingency Funding Plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily liquidated in sizeable amount etc.

The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

41 FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Liquidity risk *(continued)*

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the limit set with respect to various time buckets as set out in Bank's Risk Appetite and Strategy Statement. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date. In addition to this, the Bank also monitors and report liquidity in line with Basel III ratios that includes Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR).

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required ("Required stable funding") of a bank is a function of the liquidity characteristics and residual maturities of the various assets held by the Bank as well as those of its off-balance sheet (OBS) exposures.

Treasury department of the Bank and Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds.

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table below represents cash flows receivable to and payable by the Bank under assets and liabilities by estimated remaining maturities at the balance sheet date.

Maturity profile of assets and liabilities

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2020	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	67,443	-	-	-	500	67,943
Inter-bank Wakala and Due from banks	12,996	-	-	-	-	12,996
Financing to customers - net	20,902	166,251	98,023	439,217	263,765	988,158
Financial assets at fair value through equity	17,207	4,471	2,155	53,398	22,809	100,040
Financial assets at amortised cost	-	-	-	1,979	-	1,979
Investment in real estate	-	-	-	14,175	-	14,175
Intangible asset	-	-	-	-	2,264	2,264
Property and equipment	-	-	-	-	1,780	1,780
Other assets	184	1,057	764	7,128	7,791	16,924
Total assets	118,732	171,779	100,942	515,897	298,909	1,206,259
Interbank Wakala	58,338	8,470	-	25,025	-	91,833
Customer accounts, Wakala and unrestricted accountholders	81,809	138,426	166,648	347,143	190,180	924,206
Other liabilities	-	4,585	5,633	13,925	6,034	30,177
Investment risk and profit equalization reserve	-	-	-	-	355	355
Owners' equity	-	-	-	-	159,688	159,688
Total liabilities, equity of unrestricted investment accountholders and owners' equity	140,147	151,481	172,281	386,093	356,257	1,206,259
Net gap	(21,415)	20,298	(71,339)	129,804	(57,348)	-
Cumulative net gap	(21,415)	(1,117)	(72,456)	57,348	-	-

41 FINANCIAL RISK MANAGEMENT *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2019						
Cash and balances with Central Bank of Oman	88,793	-	-	-	500	89,293
Inter-bank Wakala and Due from banks	20,776	-	-	-	-	20,776
Financing to customers - net	26,734	138,705	86,844	334,197	243,043	829,523
Financial assets at fair value through equity	4,801	4,947	8,451	36,102	11,803	66,104
Financial assets at amortized cost	-	-	1,993	-	-	1,993
Investment in real estate	-	14,175	-	-	-	14,175
Intangible asset	-	-	-	-	2,367	2,367
Property and equipment	-	-	-	-	1,875	1,875
Other assets	120	724	360	2,798	4,256	8,258
Total assets	141,224	158,551	97,648	373,097	263,844	1,034,364
Interbank Wakala	26,400	21,175	-	19,250	-	66,825
Customer accounts, Wakala and unrestricted accountholders	52,116	115,329	200,345	283,015	146,105	796,910
Other liabilities	-	3,712	8,412	8,501	1,517	22,142
Investment risk and profit equalization reserve	-	-	-	-	580	580
Owners' equity	-	-	-	-	147,907	147,907
Total liabilities, equity of unrestricted investment accountholders and owners' equity	78,516	140,216	208,757	310,766	296,109	1,034,364
Net gap	62,708	18,335	(111,109)	62,331	(32,265)	-
Cumulative net gap	62,708	81,043	(30,066)	32,265	-	-

Market risk

Market risk is the risk of loss due to unfavourable movements in market factors such as rates of return, exchange rates, commodities and equity prices. The Bank's Market risks arise generally due to open positions in foreign currencies, holding common equity, and fixed return products. All such instruments and transactions are exposed to general and specific market movements. For purpose of Capital Charge, the Bank uses Basel II standardized Approach.

The Bank seeks to mitigate market risk by employing strategies that correlate rate and price movements of its earning asset and liabilities. The Bank has Assets and Liability Committee (ALCO) which monitors Market and Liquidity Risk on regular basis. The details of market risk faced by the bank are discussed in the following notes.

41 FINANCIAL RISK MANAGEMENT *(continued)*

Liquidity risk *(continued)*

(a) **Currency risk**

Currency risk is the risk of loss resulting from fluctuations in foreign exchange rates. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealings.

The Bank undertakes currency risk mostly to support its trade finance services and cross-border FX exposures. It maintains overall foreign exchange risk position to the extent of statutory Net Open Position limit prescribed by CBO. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Omani Rial. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk. Foreign Exchange Risk exposures are managed as per Bank's Risk Management policies.

Exposure limits such as counterparty and currency limits are also in place in accordance with the Bank's approved policies to limit risk and concentration to the acceptable levels.

The foreign currency exposures are given below:

Foreign currency exposures

	2020	2019
	RO'000	RO'000
Net assets denominated in US Dollars	**4,691**	(1,534)
Net assets denominated in other foreign currencies	**1,690**	3,835

Rate of Return Risk

Rate of Return Risk is the risk of deviations in earnings or economic value due to adverse movement of the yield curve. It is inherent primarily to the banking book mainly through advances and deposits portfolio.

The profit rate exposure of the Bank arises due to mismatches between contractual maturities or re-pricing of on and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability Committee (ALCO) that reviews the profit rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.

The sensitivity of the statement of income is the effect of the assumed changes in profit rates on the earning for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at reporting date.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant.

Impact on earnings due to profit rate risk in the banking book

	2020	2019
	RO'000	RO'000
+200 bps	**4,965**	5,112
+100 bps	**2,483**	2,556
-200 bps	**(4,965)**	(5,112)
-100 bps	**(2,483)**	(2,556)

41 FINANCIAL RISK MANAGEMENT *(continued)*

Liquidity risk *(continued)*

Rate of Return Risk *(continued)*

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to re-pricing of assets and that of the corresponding liability. The Bank manages these mismatches by risk policy guidelines and reduces risk by matching the re-pricing of assets and liabilities

31 December 2020	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 6 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-profit bearing RO'000	Total RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	67,943	67,943
Inter-bank Wakala and Due from banks	-	-	-	-	-	12,996	12,996
Financing to customers – net	275,564	168,740	97,016	351,527	95,311	-	988,158
Financial assets at fair value through equity	17,150	721	246	53,207	23,000	5,716	100,040
Financial assets at amortized cost	-	-	-	1,979	-	-	1,979
Investment in real estate	-	-	-	-	-	14,175	14,175
Intangible asset	-	-	-	-	-	2,264	2,264
Property and equipment	-	-	-	-	-	1,780	1,780
Other assets	-	-	-	-	-	16,924	16,924
Total assets	292,714	169,461	97,262	406,713	118,311	121,798	1,206,259
Interbank Wakala	-	-	-	-	-	91,833	91,833
Customer accounts, Wakala and unrestricted accountholders	40,890	69,313	62,859	426,297	141,772	183,075	924,206
Other liabilities	-	-	-	-	-	30,177	30,177
Investment risk and profit equalisation reserve	-	-	-	-	355	-	355
Shareholders' equity	-	-	-	-	-	159,688	159,688
Total liabilities and shareholders' equity	40,890	69,313	62,859	426,297	142,127	464,773	1,206,259
On-balance sheet gap	251,824	100,148	34,403	(19,584)	(23,816)	(342,975)	-
Cumulative profit sensitivity gap	251,824	351,972	386,375	366,791	342,975	-	-

41 FINANCIAL RISK MANAGEMENT *(continued)*

Liquidity risk *(continued)*

Rate of Return Risk *(continued)*

Profit rate sensitivity gap *(continued)*

31 December 2019	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 6 to 12months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-profit bearing RO'000	Total RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	89,293	89,293
Inter-bank Wakala and Due from banks	455	-	-	-	-	20,321	20,776
Financing to customers - net	247,559	142,140	90,730	265,524	83,570	-	829,523
Financial assets at fair value through equity	4,741	19,122	5,114	21,927	11,804	3,396	66,104
Financial assets at amortized cost	-	-	1,993	-	-	-	1,993
Investment in real estate	-	-	-	-	-	14,175	14,175
Intangible asset	-	-	-	-	-	2,367	2,367
Property and equipment	-	-	-	-	-	1,875	1,875
Other assets	-	-	-	-	-	8,258	8,258
Total assets	252,755	161,262	97,837	287,451	95,374	139,685	1,034,364
Interbank Wakala	-	-	-	-	-	66,825	66,825
Customer accounts, Wakala and unrestricted accountholders	18,359	59,441	72,979	380,316	104,570	161,245	796,910
Other liabilities	-	-	-	-	-	22,142	22,142
Investment risk and profit equalisation reserve	-	-	-	-	580	-	580
Shareholders' equity	-	-	-	-	-	147,907	147,907
Total liabilities and shareholders' equity	18,359	59,441	72,979	380,316	105,150	398,119	1,034,364
On-balance sheet gap	234,396	101,821	24,858	(92,865)	(9,776)	(258,434)	-
Cumulative profit sensitivity gap	234,396	336,217	361,075	268,210	258,434	-	-

41 FINANCIAL RISK MANAGEMENT *(continued)*

Liquidity risk *(continued)*

Rate of Return Risk *(continued)*

(a) Equity risk

Bank is exposed to the volatility in the prices of the securities (i.e. Sukuk and Shares) held under equity portfolio. Equity investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity investments. Hence the exposure in listed and unlisted equity exposure as of date is taken in banking book and capital is calculated accordingly.

Since there is NIL exposure in trading book therefore no stress testing and sensitivity analysis is carried out.

Operational risk

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromised, regulatory non-compliance, loss of key staff, and social and environmental impacts.

The Bank has developed operational risk management policy and all the critical controls are implemented at all levels for curtailing operational risk. Each division has processes and systems in place to address operational risks within their area.

For the purpose of measuring capital charge, the Bank has adopted the Basic Indicator Approach under Basel II for Operational Risk. The approach requires the Bank to provide 15% of the average three years gross annual income as capital charge for operational risk.

Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year.

The Bank's regulatory capital is divided into two tiers:

a) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings; and

b) Tier 2 capital: general provision and unrealized gains arising on the fair valuation of equity instruments at fair value through equity.

Book value of other intangible assets including software is deducted from Tier 1 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of potential future exposure.

The Bank will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

41 FINANCIAL RISK MANAGEMENT *(continued)*

Capital risk management *(continued)*

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2020 and 2019 as follows:

Capital structure	2020	2019
	RO'000	RO'000
TIER I CAPITAL		
Paid up capital	150,000	150,000
Share premium	2,091	2,091
Legal reserve	3,265	2,159
Retained earnings / (Accumulated losses)	4,188	(5,772)
Fair value gains or losses on financial assets at fair value through equity	(2,313)	(1,729)
Less: Intangible assets	(2,264)	(2,367)
Total Tier I capital	154,967	144,382
TIER II CAPITAL		
Fair value gains on financial assets at fair value through equity	1,037	260
Impairment losses	9,863	7,143
Total Tier II capital	10,900	7,403
Total eligible capital	165,867	151,785
Risk weighted assets		
Credit risk	1,145,255	986,443
Market risk	5,105	11,991
Operational risk	62,106	51,566
Total	1,212,466	1,050,000
Tier I capital	154,968	144,382
Tier II capital	10,913	7,403
Total regulatory capital	165,881	151,785
Tier I capital ratio	12.78%	13.75%
Total capital ratio	13.68%	14.46%
Common Equity Tier 1 (CET1)	154,967	144,352
Common Equity Tier 1 ratio	12.78%	13.75%

Liquidity coverage ratio (LCR) and Net-Stable Funding Ratio (NSFR)

The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations requires banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. The Bank current LCR ratio as of Dec 31, 2020 stands at 133.83% (Dec 31, 2019: 237.84%) and NSFR stands at 118.98% (Dec 31, 2019: 122.86%).

42 COMPARISON OF PROVISION HELD AS PER IFRS 9 AND REQUIRED AS PER CBO NORMS

(a) Standard, special mention and non-performing Financing accounts (31 December 2020)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms	Net Amount as per IFRS 9
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)
	Stage 1	910,161	8,452	2,474	5,978	901,709	907,687
	Stage 2	248,507	1,255	2,333	(1,078)	247,252	246,174
Standard	Stage 3	-	-	-	-	-	-
Subtotal		**1,158,668**	**9,707**	**4,807**	**4,900**	**1,148,961**	**1,153,861**
	Stage 1	36,000	302	1,007	(705)	35,698	34,993
	Stage 2	132,760	988	7,516	(6,528)	131,772	125,244
Special Mention	Stage 3	-	-	-	-	-	-
Subtotal		**168,760**	**1,290**	**8,523**	**(7,233)**	**167,470**	**160,237**
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Substandard	Stage 3	5,689	1,422	1,849	(427)	4,267	3,840
Subtotal		**5,689**	**1,422**	**1,849**	**(427)**	**4,267**	**3,840**
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Doubtful	Stage 3	335	167	150	17	168	185
Subtotal		**335**	**167**	**150**	**17**	**168**	**185**
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Loss	Stage 3	7,269	3,169	2,186	983	4,100	5,083
Subtotal		**7,269**	**3,169**	**2,186**	**983**	**4,100**	**5,083**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	110,494	-	184	(184)	110,494	110,310
	Stage 2	2,002	-	23	(23)	2,002	1,979
	Stage 3	-	-	-	-	-	-
Subtotal		**112,496**	**-**	**207**	**(207)**	**112,496**	**112,289**
	Stage 1	**1,056,655**	**8,754**	**3,665**	**5,089**	**1,047,901**	**1,052,990**
	Stage 2	**383,269**	**2,243**	**9,872**	**(7,629)**	**381,026**	**373,397**
Total All	Stage 3	**13,293**	**4,758**	**4,185**	**573**	**8,535**	**9,108**
Total		**1,453,217**	**15,755**	**17,722**	**(1,967)**	**1,437,462**	**1,435,495**

41 Comparison of provision held as per IFRS 9 and required as per CBO norms *(continued)*

(a) Standard, special mention and non-performing Financing accounts (31 December 2019) *(continued)*

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms	Net Amount as per IFRS 9
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)
	Stage 1	940,870	7,846	2,960	4,886	933,024	937,910
	Stage 2	105,369	692	1,164	(472)	104,677	104,205
Standard	Stage 3	-	-	-	-	-	-
Subtotal		1,046,239	8,538	4,124	4,414	1,037,701	1,042,115
	Stage 1	54,042	348	1,308	(960)	53,694	52,734
	Stage 2	62,210	478	4,961	(4,483)	61,732	57,249
Special Mention	Stage 3	-	-	-	-	-	-
Subtotal		116,252	826	6,269	(5,443)	115,426	109,983
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Substandard	Stage 3	439	110	186	(76)	329	253
Subtotal		439	110	186	(76)	329	253
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Doubtful	Stage 3	52	26	28	(2)	26	24
Subtotal		52	26	28	(2)	26	24
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Loss	Stage 3	178	178	161	17	-	17
Subtotal		178	178	161	17	-	17
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	85,987	-	254	(254)	85,987	85,733
	Stage 2	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-
Subtotal		85,987	-	254	(254)	85,987	85,733
	Stage 1	1,080,899	8,195	4,522	3,673	1,072,704	1,076,377
	Stage 2	167,579	1,170	6,125	(4,955)	166,409	161,454
Total All	Stage 3	669	314	375	(61)	355	294
Total		1,249,147	9,679	11,022	(1,343)	1,239,468	1,238,125

42 COMPARISON OF PROVISION HELD AS PER IFRS 9 AND REQUIRED AS PER CBO NORMS *(continued).*

(b) Restructured accounts

31 December 2020

Assets classification as per CBO norms	Asset Classification as per IFRS 9	Gross amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net amount as per CBO norms*	Net amount as per IFRS 9	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(4	(8)=(3)-(5)	(9)
Classified as performing	Stage 1	26,668	224	668	(444)	26,444	26,000	-
	Stage 2	19,210	186	2,066	(1,880)	19,024	17,144	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		45,878	410	2,734	(2,324)	45,468	43,144	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	71	36	18	18	35	53	2
	Sub Total	71	36	18	18	35	53	2
Total	Stage 1	26,668	224	668	(444)	26,444	26,000	-
	Stage 2	19,210	186	2,066	(1,880)	19,024	17,144	-
	Stage 3	71	36	18	18	35	53	2
		45,949	446	2,752	(2,306)	45,503	43,197	2

31 December 2019

Assets classification as per CBO norms	Asset Classification as per IFRS 9	Gross amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net amount as per CBO norms*	Net amount as per IFRS 9	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(4	(8)=(3)-(5)	(9)
Classified as performing	Stage 1	4,457	34	97	(63)	4,423	4,360	-
	Stage 2	11,034	95	1,254	(1,159)	10,939	9,780	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		15,491	129	1,351	(1,222)	15,362	14,140	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-
	Sub Total	-	-	-	-	-	-	-
Total	Stage 1	4,457	34	97	(63)	4,423	4,360	-
	Stage 2	11,034	95	1,254	(1,159)	10,939	9,780	-
	Stage 3	-	-	-	-	-	-	-
		15,491	129	1,351	(1,222)	15,362	14,140	-

42 COMPARISON OF PROVISION HELD AS PER IFRS 9 AND REQUIRED AS PER CBO NORMS *(continued).*

(c) Non-performing financing ratio

	31 December 2020		
	As per CBO Norms	**As per IFRS 9**	**Difference**
Impairment loss charged to profit and loss account	**6,076**	**6,700**	**(624)**
Provisions required as per CBO norms/held as per IFRS 9	**15,755**	**17,722**	**(1,967)**
Gross NPA ratio %	**0.99**	**0.99**	**-**
Net NPA ratio %	**0.64**	**0.69**	**0.05**

	31 December 2019		
	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	1,228	2,571	(1,343)
Provisions required as per CBO norms/held as per IFRS 9	9,679	11,022	(1,343)
Gross NPA ratio %	0.06	0.06	-
Net NPA ratio %	0.04	0.03	0.01

43 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison and for better presentation, the effect of which is not material.

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Independent Auditors' Report on factual findings to the Board of Directors of Bank Nizwa SAOG in respect of the Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Islamic Banking Regulatory Framework ("IBRF") issued by Central Bank of Oman ("CBO") under Circular No. IB 1 dated 18 December 2012 ("the Procedures") with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures ("the Disclosures") of Bank Nizwa SAOG ("the Bank") set out on pages 1 to 55 as at and for the year ended 31 December 2020. The disclosures were prepared by the Management in accordance with requirements of IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013.

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013.

We report our findings below:

As a result of performing the above procedures, we have no exceptions to report.

Because the procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or review of the Disclosures in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than CBO; and we accept no liability or responsibility to any third party. This report relates only to the Bank's Disclosures and does not extend to the financial statements of the Bank taken as a whole or to any other reports of the Bank.

11 March 2021

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BASEL II PILLAR 3 ANNUAL DISCLOSURES 2020

1. Overview and Introduction

In compliance with the Central Bank of Oman ("CBO") guidelines on implementing Basel II Capital Accord for all banks operating in Oman as of September 2006, and in light of Islamic Banking Regulatory Framework (IBRF), Bank Nizwa has developed its risk management techniques to assure adequate monitoring and managing its risks.

The Basel II Accord is based on three pillars as follows:

- **Pillar I** - defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk.
- **Pillar II** - addresses a bank's internal processes for assessing overall capital adequacy in relation to risks ("ICAAP"). Pillar II also introduces the Supervisory Review and Evaluation Process ("SREP"), which can be used as a tool to assess the internal capital adequacy of any organization.
- **Pillar III** - complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy. The aim of these disclosures is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specified information on the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution.

Pillar III disclosures include information about Bank Nizwa relating to our governance structure, capital structure, capital adequacy and requirements, risk management objectives and policies, and various supporting quantitative and qualitative disclosures along with a comparison with Dec 2019 financials.

2. Scope of Application

2.1 Qualitative Disclosure

- The Bank was registered in the Sultanate of Oman as a public joint stock company on 15 August 2012.
- The Bank's shares are listed on the Muscat Securities Market "MSM" and its principle place of business is in Muscat, Sultanate of Oman.
- The Bank is not a part of any holding company or group and has no subsidiary.
- M/s Aflag Investments holds more than 10% share in the Bank.
- Financial and regulatory reporting is being done on standalone basis hence no associated disclosures related to consolidation is required.

2.2 Quantitative Disclosure

(a) Total Interest in Takaful Entities: The Bank holds 0.48% of Oman Takaful and does not have any control in the Company and accordingly it is not consolidated in any form.

3. Capital Structure

3.1 Qualitative Disclosure

- The Bank's regulatory capital is calculated as per the guidelines issued by CBO and it includes common shares capital. The Bank's authorized capital is RO 300,000,000 and issued share capital is RO 150,000,000 comprises 1,500,000,000 fully paid shares of RO 0.100 each in accordance with Article 106 of the Omani Commercial Companies Law of 1974 and 2019.
- The Bank has no other capital instruments or equity related instruments that are considered as part of its regulatory capital.
- Unrestricted Investment Accounts are defined under section Unrestricted Investment Accounts. These are not considered as part of the equity and will only affect Capital Adequacy Ratio calculation to reduce Risk-Weighted Assets. However, the Bank is following conservative approach by not reducing Risk-Weighted Assets.
- There is no minority interest, surplus capital from Takaful companies and the Bank has no shareholdings equal or exceeding 5% of total paid-up capital.

3.2 Quantitative Disclosure

The detailed breakdown of the capital structure of the Bank is as follows:

	2020	2019
	RO'000	RO'000
(a) Tier I Capital		
Paid up capital	150,000	150,000
Share premium	2,091	2,091
Legal Reserve	3,266	2,159
Accumulated Losses	4,188	(5,772)
Net Fair value losses on financial assets at fair value through equity	(2,313)	(1,729)
Less: Intangible Assets, Including Losses, Cumulative Unrealized Losses Recognized Directly In Equity	(2,264)	(2,367)
Less: Deferred Tax Assets	-	-
Total Tier I capital	154,968	144,382
(b) Tier II Capital		
Fair value gains on financial assets at fair value through equity	1,037	260
Impairment Losses/General provision	9,863	7,143
Total Tier II capital	10,900	7,403
Total eligible capital	165,868	151,785

(c) Unrestricted Investment Account and Related Reserves	2020	2019
	RO'000	RO'000
Amount of unrestricted Investment Accountholder (IAH) Funds	365,738	310,071
Investment fair value reserve	(2)	(255)
Profit Equalization Reserve (PER)	-	-
Investment Risk Reserve (IRR)	355	580

4. Capital Adequacy

4.1 Qualitative Disclosure

- The primary objective of the Bank's capital management is to ensure that the Bank complies with regulatory capital requirements and maintains healthy capital ratios in order to support its business and to optimize shareholders' value.
- The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return on capital to shareholders or issue Sukuk etc.
- The capital structure is primarily made up of its paid-up capital and including reserves. From a regulatory perspective, the significant amount of the capital is in Tier 1 form as defined by the CBO, i.e., most of the capital is of permanent nature.
- The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, future sources and uses of funds.
- To assess its capital adequacy requirements in accordance with CBO requirements, the Bank adopts the Standardized Approach for its Credit and Market Risk and the Basic Indicator Approach for its Operational Risk. In a normal course of business, all assets are funded by the common pool unless otherwise approved by ALCO in advance. The Bank's Asset Liability Committee (ALCO) decides on the participation ratio in advance for funding the common pool of assets. On a quarterly basis, based on the financials, the assessment of Risk-Weighted Assets is according to the utilization of Unrestricted Investment Accountholder and shareholders' fund in funding assets through the common pool.

4.2 Quantitative Disclosure

The ratio of equity to risk-weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December, 2020 is 13.68% (31 December, 2019:14.46%). Please refer the note below for a material information in this regard.

(a) Capital Requirements	2020 RO'000		2019 RO'000	
	Risk Weighted Assets (RWA)	**Capital Requirement at 12.25%**	Risk Weighted Assets (RWA)	Capital Requirement at 13.5%
Credit Risk	**1,145,255**	**140,294**	986,443	133,170
Market Risk	**5,105**	**625**	11,991	1,619
Operational Risk	**62,106**	**7,608**	51,566	6,961
Total	**1,212,466**	**148,527**	1,050,000	141,750

Note:

The Central Bank of Oman has approved for the Bank payment of 1.25% cash dividend (RO 1.875 million) from the retained earnings for the year 2020 (2019: nil). The resolution for the dividend distributions will be presented to the shareholders at the Annual General Meeting which will be held on 28 March 2021.

Post dividend distribution, the Capital Adequacy Ratio will reduce from 13.68% to 13.53% (2019: 14.46%) against a minimum regulatory requirement of 12.25% (as per CBO circular Ref. BSD/CB/2020/005 dated June 3, 2020, reduced from 13.5% previously applicable as part of the relief package). Common Equity Tier-1 ratio will reduce from 12.78% to 12.63% (2019: 13.75%), Tier 1 Ratio will reduce from 12.78% to 12.63% (2019: 13.75%).

(b) Capital Requirements	2020	2019
Details	**RO'000**	RO'000
Tier I Capital (after supervisory deductions)	154,968	144,382
Tier II capital (after supervisory deductions & up to eligible limits)	10,900	7,403
Risk-Weighted Assets – Banking Book	1,150,360	998,434
Risk-Weighted Assets – Operational Risk	62,106	51,566
Total Risk-Weighted Assets – Banking Book + Operational Risk	1,212,466	1,050,000
Minimum required capital to support RWAs of banking book & operational risk	148,527	141,750
i) Minimum required Tier I Capital for banking book & operational risk	**137,614**	**134,347**
ii) Tier II Capital required for banking book & operational risk	**10,900**	**7,403**
Tier I capital available for supporting Trading Book	**17,354**	10,035
Tier II capital available for supporting Trading book	-	-
Risk-Weighted Assets – Trading Book	-	-
Total capital required to support Trading Book	-	-
Minimum Tier I capital required for supporting Trading Book	-	-
Total Regulatory Capital	**165,868**	151,785
Total Risk-Weighted Assets – Whole bank	**1,212,466**	1,050,000
Common Equity Tier 1 (as a percentage of Risk-Weighted assets)	**12.78%**	13.75%
Tier 1 (as a percentage of Risk-Weighted assets)	**12.78%**	13.75%
Total capital (as a percentage of Risk-Weighted assets)	**13.68%**	14.46%

(c) Capital Adequacy Ratio	2020	2019
	RO'000	RO'000
Total Risk-Weighted Assets (RWA)	**1,212,466**	1,050,000
Total Eligible Capital	**165,868**	151,785
Capital Adequacy Ratio	**13.68%**	14.46%

(d) Ratio of Total and Tier 1 Capital to Total RWA	2020	2019
	RO'000	RO'000
Tier 1 Capital	154,968	144,382
Total Capital	165,868	151,785
Total RWA	1,212,466	1,050,000
Ratio of Total Capital	13.68%	14.46%
Ratio of Tier 1 Capital	12.78%	13.75%
Ratio of CET 1 Capital	12.78%	13.75%

(e) Ratio of Total Capital to Total Assets		
	RO'000	RO'000
Total Capital	165,868	151,785
Total Assets	1,206,259	1,034,364
Total Capital to Total Assets	13.75%	14.67%

f) Disclosure of Capital Requirements according to different risk categories for each shari'a compliant financing contract

	2020			2019		
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	Credit risk	Market risk	Risk Weighted Assets	Credit risk	Market risk	Risk Weighted Assets
Ijara Muntahia Bittamleek	20,469	-	149,616	20,280	-	150,222
Sales Receivable and Other Receivables	24,858	-	181,698	26,968	-	199,762
Wakala Bil Istethmar	68,250	-	498,857	50,315	-	372,703
Musharaka Financing	19,405	-	141,836	13,490	-	99,927
Letter of Guarantees	7,478	-	54,656	7,889	-	58,438
Letter of Credit	3,148	-	23,010	511	-	3,785
Acceptance and Bills for Collection (Wakala)	191	-	1,393	829	-	6,141
Total	143,798		1,051,065	*120,282*		890,978

(g) Disclosure of Displaced Commercial Risk

The Bank is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Bank has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The related disclosure on Displaced Commercial Risk is given in Section 17.

5. Disclosures for Investment Accountholders (IAH)

5.1 Qualitative Disclosure

- The Bank offers Unrestricted Investment Accounts based on fully sharia compliant concept of Mudaraba and Wakala.
- In Mudaraba, the Bank (Mudarib) manages Investment Account Holders (IAH) along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Shari'a compliant investments opportunities. Such information is available for all customers at Bank's website, branches, and call center.
- Under Wakala arrangement, Bank accepts funds from investors as Wakeel and invests in Shari'a compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Bank as Wakeel. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala agreement, otherwise the loss would be borne by the investor or Muwakil.
- The Bank maintains necessary reserves as required by CBO.
- Any profits accrued out of the investment are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Investor (Rab-ul-Maal). Operating expenses incurred by the Bank are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the pool, as at that date, in the respective ratio of the Bank's and IAH's respective contribution to the fund.

- The investment profits are distributed between owners' equity and unrestricted investment accountholders as follows:

	2020	2019
	Percentage	Percentage
Unrestricted investment accounts share	**50%**	50%
Mudarib share	**50%**	50%

The investment risk reserve at Zero percent (2019: 2 percent) is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount the bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner equity and unrestricted investment accountholders.

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

- IAH funds are managed according to Bank's approved policy and accordingly the Bank monitors the performance of the portfolio in order to achieve expected results. The prudential reserves have been established according to CBO and Shari'a guidelines.

5.2 Quantitative Disclosure

The related disclosure of Unrestricted Investment Account is given below:

a) PER to PSIA Ratio

	2020	2019
	RO'000	RO'000
Amount of Total PER	**NIL**	NIL
Amount of PSIA by IAH	**365,738**	310,071
PER to PSIA Ratio	**0%**	0%

b) IRR to PSIA Ratio

	2020	2019
	RO'000	RO'000
Amount of Total IRR	**355**	580
Amount of PSIA by IAH	**365,738**	310,071
IRR to PSIA Ratio	**0.10%**	0.19%

c) Return on Assets (ROA)

	2020	2019
	RO'000	RO'000
Amount of Total Net Income (before distribution of profit to unrestricted IAH)	**54,752**	47,379
Total Amount of Assets	**1,206,259**	1,034,364
Return on Assets (ROA)	**4.54%**	4.58%

d) Return on Equity (ROE)

	2020	2019
	RO'000	RO'000
Amount of total net income (after distribution of profit to IAH)	**31,383**	25,603
Amount of shareholders' equity	**159,688**	147,907
Return on Equity (ROE)	**19.65%**	17.31%

e) **Ratios of profit distributed to PSIA by type of IAH**

As of reporting date the Bank has return on Unrestricted Investment Accountholder and distributed profit amounting RO 7,603 thousands (FY-2019: RO 7,504 thousands) during the period to Investment Accountholders.

f) **Ratios of financing to PSIA by type of IAH**

As of reporting date, all jointly financing is funded by comingled pool which includes funds from Unrestricted Investment Accountholder (including Mudaraba and Wakala) and Shareholders.

Gross Financing by type of contract	2020		2019	
	RO'000	%	RO'000	%
Sales Receivables and Other Receivables	239,330	23.22%	241,708	27.88%
Ijarah Muntahia Bittamleek	305,239	29.62%	318,959	36.78%
Musharaka financing	181,257	17.59%	120,121	13.85%
Wakala Bil Istethmar	304,714	29.57%	186,352	21.49%
Total Financing	1,030,540	100.00%	867,140	100.00%

6. Unrestricted Mudaraba Investment Accounts

6.1 Qualitative Disclosure

- There is no major change in the investment strategies that affect the investment accounts to the reporting date.
- The Bank has a single pool of comingled assets where the funds of investment accountholders are invested and income is allocated to such accounts.

The investment profits distributed between equity shareholders and unrestricted investment accountholders is as follows:

	2020	2019
	Percentage	Percentage
Unrestricted investment accounts share	50%	50%
Mudarib share	50%	50%

- The investment risk reserve at Zero percent (2019: 2 percent) is deducted from customer's share after allocating the Mudarib share of profit. The profit equalization reserve is deducted from total revenue before allocating the Mudarib share based on ALCO decisions.
- The Bank does not charge Investment Accountholders for operating expenses incurred.

6.2 Quantitative Disclosure

a) **Total amount of unrestricted IAH funds with respect category**

Account type	2020	2019
	RO'000	RO'000
Saving account	273,775	199,337
Investment accounts:		
One month	83	272
Three months	729	687
Six months	1,854	1,772
Nine months	246	267
One year	24,386	23,461
One year and a half	3,571	4,126
Two years	57,488	78,424
Three years	332	230
Four years	113	18
Five years	864	518
More than five years	2,297	959
	365,738	310,071

b) **Share of profits earned by unrestricted IAH, before transfers to or from reserves (amount and as a percentage of funds invested)**

	2020	2019
	RO'000	RO'000
Share of profits	**7,603**	7,504
funds invested	**365,738**	310,071
Ratio	**2.08%**	2.42%

c) **Share of profits paid out to unrestricted IAH, after transfers to or from reserves (amount and as a percentage of funds invested)**

	2020	2019
	RO'000	RO'000
Share of profits	**7,603**	7,359
funds invested	**365,738**	310,071
Ratio	**2.08%**	2.37%

d) **Movements on PER and IRR during the year**

During the reporting year the Bank utilized RO Zero (Dec-19: Zero) from PER. However, the total amount apportioned from the income distributable to equity of unrestricted investment accountholders amounted to RO Zero (Dec 2019: RO Zero).

During the reporting year RO 225 Thousands (2019: NIL) utilized in IRR. However, the total amount apportioned from the income distributable to equity of unrestricted investment accountholders amounted to RO Zero (Dec 2019: RO 145,264).

Following is the movement of IRR and PER:

	2020		2019	
	RO'000	**RO'000**	RO'000	RO'000
	PER	IRR	PER	IRR
Beginning Balance at the beginning of the year	-	**580**	-	434
Additions	-	-	-	146
Transferred	-	**(225)**	-	-
Balance at the end of the year	-	**355**	-	580

e) **Disclosure of the utilization of PER and/or IRR during the period**

During the period Zero PER (2019: RO Zero) and RO 225 thousand IRR (2019: Zero) utilized.

f) **Profits earned and profits paid out over the past three to five years (amounts and as a percentage of funds invested)**

	2020	2019	2018	2017	2016
	RO'000	RO'000	RO'000	RO'000	RO'000
Profit Earned	**54,752**	47,379	37,968	27,956	17,982
Profit Distributed	**7,603**	7,359	7,679	4,197	1,195
Funds Invested	**365,738**	310,071	322,851	227,777	157,985
Return as % of Funds Invested	**2.08%**	2.37%	2.37%	1.84%	0.76%

g) **Amount of total administrative expenses charged to unrestricted IAH**

As per Bank's policy, the administration expenses are only charged on the Bank expenses.

h) Average declared rate of return or profit rate on unrestricted PSIA by maturity (1-month, 3-month, 6-month, 9-month, 12-months, 18-months and 24 months)

	Participation factor		2020	2019
Account type	**RO**	**USD**	**Average rate of return RO**	Average rate of return RO
Saving account	20% - 80%	15% - 30%	**1.02%**	**1.07%**
One month tenure	46% - 50%	23%-25%	**1.40%**	**1.40%**
Three months tenure	51% - 55%	25.5% - 27.5%	**1.53%**	**1.53%**
Six months tenure	61% - 68%	30.5% - 34%	**1.88%**	**1.90%**
Nine months tenure	66% - 73%	33% - 36.5%	**2.02%**	**2.02%**
One year tenure	71% - 78%	35.5% - 39%	**2.33%**	**2.64%**
One year and a half tenure	78.5% - 85%	-	**3.21%**	**3.21%**
Two years tenure and above	79.5% - 87%	-	**3.69%**	**3.16%**

i) Changes in asset allocation in the last six months

There are no significant changes in the last six months of reporting date.

j) Off-balance sheet exposures arising from investment decisions, such as commitments and contingencies

	2020	2019
Off-balance sheet items	**RO'000**	RO'000
Financial guarantee	**109,311**	116,876
Financial letter of credits	**115,048**	17,795
Acceptances	**880**	6,580
Bills for collection	**513**	1,128
Commitments	**110,834**	181,478
Total	**336,586**	323,857

k) Disclosure of limits imposed on the amount that can be invested in any one type of asset

The Bank does not have any restricted Investment Account as of reporting date, as such there are no limits imposed to be invested in any type of asset other than limits set in Bank's policy and CBO regulations.

7. Unrestricted Wakala Investment Accounts

7.1 Qualitative Disclosure

- There is no major change in the investment strategies that affect the investment accounts to the reporting date.
- The Bank has a single pool of comingled assets where the funds of investment accountholders are invested and income from which is allocated to such accounts according to the nature of the agreement

7.2 Quantitative Disclosure

a) Computation of Pool income is as follows:

Item	**2020**	2019
	RO'000	RO'000
Pool Income from Financing	**50,848**	44,955
Income from Investments	**3,904**	2,424
Total Pool Income	**54,752**	47,379
	-	-
Profit Equalization Reserve	-	-
Investment risk reserve	-	(145)
	-	-
Pool Income	**54,752**	47,379
Mudarib fee	**(7,434)**	(7,170)
Movement to or from PER/IRR	-	-
Total amount paid to IAH Mudaraba	**(7,603)**	(7,359)
Total amount attributable to shareholders pool including Wakala	**39,715**	32,705

8. Restricted Investment Accounts

The Bank does not have Restricted Investment Accounts product as of reporting date.

9. Retail Investor-Oriented Disclosures for Investment Accounts

The Bank offers Unrestricted Investment Accounts in OMR and USD only and maturity periods ranging from 1 month, 3 months, 6 months, 9 months, 12 months, 18 months and 24 months based on fully Sharia-compliant concept of Mudaraba. Profit is paid with a payout frequency of Monthly or Quarterly.

Following is the Product Structure of the Unrestricted Mudaraba Investment Account

9.1 Product Structure

Key Definitions and Concepts

Mudaraba – is a form of partnership where one party provides capital and the second party provides expertise and management skills. First party is referred to as Rab-ul-Maal (Investor) and the second party is referred to as the Mudarib (Investment Manager). Any profits accrued out of the joint business are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Rab-ul-Maal (Investor) except for losses arising from the negligence of Mudarib.

Mudarib – is the entrepreneur or investment manager in a Mudaraba, the Mudarib manages the investor's funds through a common pool of investments called Mudaraba Pool in return for a share of profits through Sharia compliant investments.

Rab-ul-Maal – is the provider of the capital or investor in an Islamic contract such as Mudaraba.

Structure of the Mudaraba Investment Account Product

The Bank's Mudaraba Investment Account product will be based on the Islamic contract of Mudaraba.

In case of Mudaraba Investment Account under Mudaraba arrangement, the customer becomes an Investor (Rab-ul-Maal), and the Bank becomes the Manager (Mudarib) of the funds invested by the customers. Besides acting as Mudarib, the Bank can also invest a share of its equity and other funds that the Bank did not receive on Mudaraba basis in the Mudaraba Pool.

For the Bank's funds invested in the joint Mudaraba pool, the Bank will become a partner of the customer. The Bank will accept funds from Mudaraba Investment Accountholders under a Mudaraba agreement and allocate the funds received from the customers, along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Sharia compliant investments opportunities.

The profit earned from the investment and financing activities, using funds from the unrestricted joint investment pool shall be distributed between the Depositors (Investors) and the Bank based on the Profit Distribution Methodology as approved by the Sharia Supervisory Board (SSB). There is no sharing of profits from the Bank's fee-based banking.

The Bank does not guarantee the Investment amount to the Mudaraba Investment Accountholders, and in case of a loss from the investment and financing activities; the loss shall be borne by the customers in proportion of their respective share in the investment pool. Customer's share of loss shall be deducted from the customer's investment amount except for losses arising from the negligence of Mudarib (the Bank)

All Mudaraba Investment Accounts shall be assigned weightages, based on the features of the Mudaraba Investment Account such as amount, currency, period of investment, profit payment options and other applicable features for the purpose of the profit calculation, in accordance with the Sharia rulings issued by the Sharia Supervisory Board (SSB)

The pooled funds will be subjected to deductions for all direct expenses and fees incurred to generate the assets in the specific pool.

The Bank will deduct its Mudarib Share from net profit after deducting its share as fund provider "Rab-ul-Mal".

The Bank may change the Mudarib Share and weightages for calculation of profit from time to time.

In case of loss, Mudaraba Investment Accountholders will suffer the loss exactly according to the ratio of their investment; and in case of profit, the profit will be distributed on the basis of the share of investment in the investment pool on pre agreed terms.

The minimum balance criterion for Mudaraba Investment Account is essential as a balance requirement to participate in the Mudaraba pool. Once the Investment Amount has been invested, Profit is calculated on monthly basis on the Investment amount of the customer and is payable as per the selected profit payout option by the customer (monthly or quarterly). The Mudarib share ratio is disclosed on Bank's website for information to the customers.

In the event the Rab-ul-Mal wishes to terminate the Investment prior to the agreed Investment Maturity Date, the Rab-ul-Mal shall notify in writing to the Mudarib. Mudarib would be entitled to apply the declared profit rates of the nearest corresponding period for the actual investment period completed, provided a minimum one month of investment has been completed to be eligible for profit payment. Deduction from Principal amount is allowed in case profit amount already paid to the customer (in case of profit payout option other than on maturity) is higher than the applicable declared profit rates for the actual completed investment period.

The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:

Profit Equalization Reserve (PER)

This is to secure suitable and competitive return to the investors in case there are certain extra ordinary circumstances, depressing the return, which were un-anticipated by the investors. The disposition of the reserve amount will take place with the prior approval of the Shari'a Board. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the investors with the approval of Shari'a Board. This reserve only applies to Mudaraba accounts. In case the rate of return to the investors in a certain profit distribution period is substantially higher than the market rates, the Bank's Management may decide to deduct, after taking approval from ALCO, after deducting the profit share of the investment manager as Mudarib and Rab Al Maal, a portion of the common pool share of profit and transfer the same to the Profit Equalization Reserve (PER) up to a maximum limit of 60% of the increased value. In addition, transfer amount from/to PER and IRR subject to Asset Liability Committee (ALCO) approval.

Investment Risk Reserve (IRR)

This reserve is created from the investors' share of profit out of the Net Profit as per relevant guidelines (AAOIFI and/or CBO), post distribution of Mudarib share to ensure certain level of cushion for the investment portfolio. The available balance in the reserve account shall be invested in the Common Pool and the profit earned by investing such balance will be added to the reserve account. IRR provides funds for unexpected and uncertain events takes place resulting in a decline in the value of the investments. This decline in value may be as a result of losses on financing or/and general reserves of the bank (as required by regulation). The disposition of the reserve amount will take place with the prior approval of the Shari'a Board. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the investors with the approval of Shari'a Board.

The Bank's ALCO decides in advance on the investment and asset allocation for IAH funds, including, with particular reference to unrestricted IAHs, the commingling of their funds with other funds managed by the Bank, the balance between shareholders' and IAH interests in terms of allocating investment funds and the risk-return characteristics of investments.

The Bank calculates the profit of the Mudaraba pool every month. Net Profit of the pool (after deduction of the direct costs/expenses attributable to the common pool) will be distributed amongst the investors and the shareholders, according to the following formula:

- (Average Investment amount x Aggregate weightages given to the shareholders and investors) for each category of investors.
- This aggregate weightage depends on: Amount and Profit Payout Frequency.

Then the Mudarib's fee is deducted from each category of the investors' share of profit, giving them the Net Profit.

Losses arising from receivables, financing and investment assets that started and ended in the same year will be compensated as follows:

- Will be covered from the profits of the same year.
- If losses exceeded profits in the same year, they will be covered from Investment Risk Reserve.
- If there is no sufficient fund available in Investment Risk Reserve, the losses will be covered directly from investor funds "Rab ul Mal share".

Losses arising from receivables, financing and investment assets that initiated and continued from preceding years will be compensated as follows:

- Will be covered from the Investment Risk Reserve.
- If there is no sufficient fund available in Investment Risk Reserve, they will be covered from current revenues.
- If the current revenues are not sufficient, the losses will be covered directly from investors' funds "Rabb ul Mal share".

In addition to the above, in all cases the shareholders may forego their share of profit or part of their equity in favor of the investors to cover such losses.

10. Risk Management, Risk Exposures and Risk Mitigation

10.1 Qualitative Disclosure

- The Bank like all other major financial service organizations is facing increasing demands to better understand its risks, both from management and from external stakeholders. Factors such as the global pace of change, resource constraints, product complexity and a growing demand for transparency, present a compelling case for stronger management of risk.
- The Bank's Risk Management Framework enables the bank to manage bank-wide risks with the objective of maximizing returns while adhering to the risk appetite. The Bank uses a three lines of defense model to support its approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities.
- The three lines of defense are summarized below:
  - Business units: required to ensure the effective management of risks within the scope of their direct organizational responsibilities. All employees within the business units are sufficiently trained and have access to appropriate tools to ensure risk-taking is controlled. Each business unit primarily owns the risk that it underwrites and is equally responsible for designing and implementing necessary controls to mitigate risks emanating from its activities.
  - Risk control units: responsible for implementing policies and procedures, monitoring risks taken to ensure all risks are within the Bank's risk appetite. Appropriate controls are designed and implemented with adequate reporting in place to anticipate future risks and improve the level of preparedness across the management chain.
  - Internal Audit: provides independent assurance and reports its findings to all relevant management and governance bodies, accountable line managers, relevant oversight function and committee(s) of the Board.
- The Bank's risk management and control principles are further supported by qualitative elements such as policies and authorities, and quantitative components including risk measurement methodologies and risk limits. In addition, the framework is dynamic and continuously adapted as Bank's businesses and the market environment evolve. It is based on:
  1. Strong managerial involvement throughout the entire organization, from the CEO down to operational field management teams;
  2. A firm structure of internal procedures and guidelines;
  3. Permanent supervision by an independent bodies to monitor risks and to enforce rules and procedures; and
  4. Continuous training that helps to foster a disciplined and constructive culture of risk management and control.

The overall objective of the Risk Management Framework is to improve shareholder value by optimizing risk and return. Specifically, Risk Management framework will:

1. Establish clear accountability or ownership of risk
2. Enable management to make decisions on a well-informed, risk-adjusted, and aggregated basis
3. Enable Bank to manage negative "what-if" scenarios
4. Improve understanding of interactions and inter-relationships between risks
5. Establish an "in control" status of significant risks

- Bank's Risk Management program is geared towards helping the organization to manage risk. A common risk framework and supporting processes aid in the comprehensive and consistent understanding and decision-making for risk. Through an integrated framework, the Bank intends to ingrain a strong and consistent risk culture across the organization.
- The Risk Management framework structure is summarized below:

  The Risk Management framework has seven components: four that comprise the risk management decision phases and three that are support components.

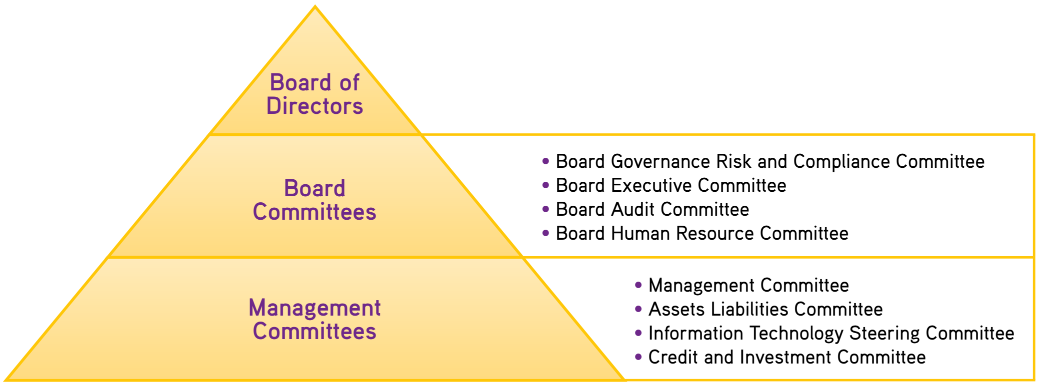
The four risk management decision phases are:

Policy	Top down direction providing definition for risk appetite, governance and risk management principles.
Plan	Setting of risk strategy and objectives for business areas.
Execute	The core risk process of risk identification, assessment, mitigation and measurement and reporting.
Evaluate	Monitoring the program and evaluation of performance.

The three support components represent the tools and environment. They are:

Infrastructure	The tools, technology, staffing and policy to support the risk management process.
Internal Environment	The internal culture of the Bank and the tools to create and reinforce it.
External Environment	Factors outside the Bank that may create risk that need to be monitored or against which the Bank's Business plan may need to be evaluated.

- The Bank's primary responsibility of managing Risk lies with Board of Directors (BOD) who has formed independent dedicated Board level committee, Board Governance Risk and Compliance Committee (BGRCC). The BGRCC is supported by independent Risk Management Group (RMG) that reports to BOD through BGRCC.
- Part of the risk governance, Senior Management Committees were established in the Bank to manage the overall level of each risk type. This includes: Assets and Liability Committee (ALCO), Credit and Investment Committee (CIC) and IT Steering Committee (ITSC).



- To Bank has policies for each risk type and accordingly risk is identified, assessed, monitored and reported to the Board and Senior Management. For this, a comprehensive integrated risk management report covering is generated on regular basis that highlights risk and performance of portfolio and is reported to Senior Management and Board with analysis for their review.
- The Bank has comprehensive Risk Management Policies approved by the Board for all the major risk types. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework in the Bank.
- The risk appetite statement identifies risk objectives, policies, strategies and risk governance both at the Board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses.
- Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents. In addition, the Bank is in the process of implementing various risk systems to help quantify the regulatory capital allocated to various portfolios.

- The Bank is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework summarizes the spirit behind Basel II and III which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities and segregation of duties, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.
- For the purpose of Capital Adequacy calculation, the exposure funded by IAH are taken completely in RWA and required capital as per CBO is allocated.

10.2 Quantitative Disclosure

(a) **Disclosure of the range and measures of risks facing each restricted IAH fund, based on its specific investment policies**
As of reporting date the Bank does not have restricted IAH funds.

(b) **Disclosure of the treatment of assets financed by restricted IAH in the calculation of RWA for capital adequacy purposes**
As of reporting date the Bank does not have restricted IAH funds.

(c) **Disclosure of the treatment of assets financed by unrestricted IAH in the calculation of RWA for capital adequacy purposes.**
As per the Islamic Banking Regulatory Framework (IBRF), 30% (alpha ratio) of assets financed by IAH are required to be deducted from Total Risk-Weighted Assets (RWA). However, the Bank has not taken into the consideration this and following conservative approach by not deducting the same from RWA.

(d) **Composition of financing by type of contract as a percentage of total financing.**

Financing (gross) by type of contract	2020		2019	
	RO'000	%	RO'000	%
Sales Receivable and Other Receivables	**239,330**	**23.22%**	241,708	27.87%
Ijarah Muntahia Bittamleek	**305,239**	**29.62%**	318,959	36.79%
Musharaka financing	**181,257**	**17.59%**	120,121	13.85%
Wakala Bil Istethmar	**304,714**	**29.57%**	186,352	21.49%
Total Net Financing	**1,030,540**	**100.00%**	867,140	100.00%

(e) **Percentage of financing for each category of counterparty to total financing**

	2020 Gross Financing		2019 Gross Financing	
	RO'000	%	RO'000	%
Personal	**440,481**	**46.53%**	403,520	46.53%
Small Medium Enterprises	**28,769**	**1.84%**	15,977	1.84%
Corporate	**561,290**	**51.63%**	447,643	51.63%
Government	**-**	**0.00%**	-	0%
Total	**1,030,540**	**100.00%**	867,140	100%

(f) **Disclosure of the carrying amount of any assets pledged as collateral (excluding amounts pledged to the Central Bank) and the terms and conditions relating to each pledge.**
As of reporting date, the Bank does not have any secured borrowing where Bank has pledge collateral to counterparty.

(g) **The amount of any guarantees or pledges given by the Licensee and the conditions attached to those guarantees or pledges.**
The Bank issued Performance, Advance Payment and Shipping Guarantee amounting RO 109,311 thousands (Dec 2019: RO 116,875 thousands) as of reporting date.

11. Credit Risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from potential that a customer or counterparty's willingness to meet an obligation or its ability to meet such an obligation is impaired, resulting in an economic loss to the Bank.

- Credit risk is primarily managed as per BOD approved Credit risk policy where proper assessment of inherent risks is carried out in credit proposals to ensure a balanced portfolio of customers meeting the risk appetite of the Bank. The Bank also ensures dealing with customers of good credit standing, a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the accounts.
- Credit risk management, administration and control are carried out by risk management teams, which report to the Board Governance, Risk and Compliance Committee. The Bank has well defined credit structures under which credit committees, comprising of senior officers with requisite banking background, critically scrutinize and sanction financing up to the delegated authority. The Bank's exposure to credit is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. All credit decisions are taken as per the Bank's risk policies and CBO regulations and are monitored accordingly.
- The Bank relies on external ratings for rated corporate customers and counterparties. The Bank uses CBO approved External Credit Assessment Institutions I.e. Standard & Poor's, Fitch and Moody's to provide ratings for such counterparties. In case of unrated counterparties, the Bank assesses the credit risk based on the internal rating system/mechanism.
- A financing that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing exposure that is overdue for 90 days or more is considered impaired.
- The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.
- The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 month ECL).
- The 12 month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
- Both LTECLs and 12m ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.
- The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.
- For all Past Due receivables and Impaired Financial assets, Expected Credit Loss (ECL) impairment is created and for Performing Financing Assets, ECL is created on forward looking approach in accordance with IFRS 9 standards. To assess requirements of ECL, financial assets are divided into three staging criteria i.e. Stage 1, Stage 2 and Stage 3. Where Stage 1 is for 'performing', Stage 2 is for 'under-performing' where credit risk has increased significantly since inception; and Stage 3 is for 'non-performing'.

11.1 Quantitative Disclosure

(a) Total Gross Credit and Average Gross Credit

	2020		2019	
	Total Gross Credit	**Average Gross Credit**	Total Gross Credit	Average Gross Credit
	RO'000	**RO'000**	RO'000	RO'000
Sales Receivables and Other Receivables	**239,330**	**240,519**	241,708	226,340
Ijarah Muntahia Bittamleek	**305,239**	**312,099**	318,959	318,516
Musharaka financing	**181,257**	**150,689**	120,121	90,529
Wakala Bil Istethmar	**304,714**	**245,533**	186,352	163,227
Investments in Sukuk & securities	**102,210**	**85,272**	68,333	59,297
Interbank Wakala Placements	**13,012**	**16,903**	20,794	13,600
Total	**1,145,762**	**1,051,015**	956,267	871,508

The breakup of Investment in Sukuk & securities and Interbank Wakala placements with respect to external ratings are given below:

	2020		2019	
External Ratings	**Investment in Sukuk and Securities**	**Interbank Wakala Placements and Due from Banks**	Investment in Sukuk and Securities	Interbank Wakala Placements and Due from Banks
	RO'000	**RO'000**	RO'000	RO'000
AAA	**16,555**	**-**	21,834	-
AA+,AA-AA	**-**	**13**	-	63
A+, A, A-	**-**	**9,745**	-	16,596
BBB+, BBB, BBB-	**-**	**160**	-	3,565
BB+, BB, BB-	**76,168**	**1,290**	37,222	-
B+, B, B-	**802**	**1,801**	-	90.728
Unrated	**5,960**	**2**	9,277	478
Total	**99,485**	**13,012**	68,333	20,794

(b) Exposure in terms of geographical area

	Assets			Liabilities		
	Gross due from banks and Interbank Wakala investment	**Gross financing**	**Gross investments in Sukuk and securities**	**Customer account, unrestricted IAH and customer Wakala**	**Interbank Wakala**	**Contingent liabilities and commitments**
31 December 2020	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Sultanate of Oman	**-**	**1,030,540**	**82,185**	**924,208**	**66,800**	**309,715**
Other GCC countries	**1,705**	**-**	**3,072**	**-**	**19,250**	**9,824**
Europe and North America	**11,244**	**-**	**398**	**-**	**-**	**12,346**
Africa and Asia	**63**	**-**	**16,555**	**-**	**5,783**	**4,701**
Total	**13,012**	**1,030,540**	**102,210**	**924,208**	**91,833**	**336,586**

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Investments in Sukuk and securities	Customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2019	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	-	865,760	39,891	785,870	45,650	300,354
Other GCC countries	1,417	1,380	5,823	11,295	17,710	7,217
Europe and North America	19,255	-	399	-	1,059	4,087
Africa and Asia	122	-	22,220	-	2,406	12,199
Total	20,794	867,140	68,333	797,165	66,825	323,857

(c) Customer concentrations

	Assets			Liabilities		
2020	Due from banks and Interbank Wakala investment	Gross Financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	440,481	-	414,230	-	81,718
Corporate	13,012	590,059	8,685	131,986	91,833	241,797
Government	-	-	93,525	377,992	-	94,789
Total	13,012	1,030,540	102,210	924,208	91,833	336,586

	Assets			Liabilities		
2019	Due from banks & Interbank Wakala investment	Gross Financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	403,520	-	351,795	-	82
Corporate	20,794	463,620	9,101	93,831	66,825	304,775
Government	-	-	59,232	351,539	-	19,000
Total	20,794	867,140	68,333	797,165	66,825	323,857

(d) Industry concentrations

	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2020	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	440,481	-	414,230	-	-
Construction	-	105,206	-	22,862	-	110,596
Manufacturing	-	84,214	-	8,245	-	17,942
Financial services	13,012	-	-	-	91,833	-
Government	-	-	93,525	377,992	-	94,789
Other services	-	216,944	-	15,568	-	70,413
Others	-	183,695	8,685	85,311	-	42,846
	13,012	1,030,540	102,210	924,208	91,833	336,586

	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2019	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	403,520	-	351,795	-	82
Construction	-	88,527	-	33,291	-	116,713
Manufacturing	-	93,313	-	11,622	-	46,256
Financial services	20,794	-	-	-	66,825	5,451
Government	-	-	59,232	351,539	-	19,000
Other services	-	91,877	-	14,326	-	29,728
Others	-	189,903	9,101	34,592	-	106,627
	20,794	867,140	68,333	797,165	66,825	323,857

(e) Industry type distribution of exposures by major types of credit exposures:

	Due from banks and interbank Wakala	Gross Sales receivables and other receivables	Gross Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
2020	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Construction	**-**	**17,270**	**3,627**	**9,097**	**75,212**	**-**	**105,206**	**110,596**
Electricity, gas and water	**-**	**14,148**	**278**	**14,856**	**62,989**	**-**	**92,271**	**27,042**
Financial institutions	**13,012**	**-**	**-**	**-**	**-**	**-**	**13,012**	**-**
Services	**-**	**21,662**	**3,928**	**17,830**	**81,253**	**-**	**124,673**	**43,371**
Personal financing	**-**	**130,168**	**259,867**	**50,446**	**-**	**-**	**440,481**	**-**
Government	**-**	**-**	**-**	**-**	**-**	**93,525**	**93,525**	**94,788**
Non-resident financing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Others	**-**	**56,082**	**37,539**	**89,028**	**85,260**	**8,685**	**276,348**	**60,789**
Total	**13,012**	**239,330**	**305,239**	**181,257**	**304,714**	**102,210**	**1,145,516**	**336,586**

	Due from banks and interbank Wakala	Gross Sales receivables and other receivables	Gross Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
2019	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Construction	-	12,983	5,135	1,155	69,254	-	88,527	116,713
Electricity, gas and water	-	663	-	-	917	-	1,580	6,742
Financial institutions	20,794	-	-	-	-	-	20,794	5,451
Services	-	21,076	15,755	34,314	19,151	-	90,296	22,985
Personal financing	-	123,629	260,109	19,782	-	-	403,520	-
Government	-	-	-	-	-	59,232	59,232	19,000
Non-resident financing	-	-	1,380	-	-	-	1,380	-
Others	-	83,357	36,580	64,870	97,030	9,101	290,938	152,966
Total	20,794	241,708	318,959	120,121	186,352	68,333	956,267	323,857

(f) Residual contractual maturities of the portfolio by major types of Islamic financing assets:

2020	Gross due from banks and interbank Wakala	Gross sales receivables and other receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Gross investment in Sukuk & securities	Total	Off balance sheet exposures
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Up to 1 month	13,012	8,544	1,274	159	11,671	17,207	51,867	102,299
1 to 3 months	-	21,381	2,577	3,812	53,254	-	81,024	21,191
3 to 6 months	-	25,972	3,951	4,091	55,816	4,471	94,301	18,686
6 to 9 months	-	21,138	3,988	4,833	32,200	-	62,159	7,195
9 to 12 months	-	18,016	4,065	4,531	13,508	2,155	42,275	66,529
1 to 3 years	-	92,301	48,447	51,581	87,379	2,002	281,710	116,800
3 to 5 years	-	35,136	45,878	55,442	39,194	53,375	229,025	1,328
Over 5 years	-	16,842	195,059	56,808	11,692	23,000	303,401	2,558
	13,012	239,330	305,239	181,257	304,714	102,210	1,145,762	336,586

2019	Due from banks and interbank Wakala	Gross sales receivables and other receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Up to 1 month	20,794	8,316	1,712	502	17,054	4,801	53,179	20,301
1 to 3 months	-	12,697	9,665	8,423	44,140	18,559	93,484	21,342
3 to 6 months	-	33,868	4,867	3,168	25,635	563	68,101	27,252
6 to 9 months	-	13,374	4,084	3,760	22,281	-	43,499	2,888
9 to 12 months	-	23,423	6,670	3,426	15,087	10,444	59,050	186,087
1 to 3 years	-	93,042	54,232	38,102	40,840	1,599	227,815	8,192
3 to 5 years	-	38,292	49,771	27,679	9,856	20328	145,926	2,313
Over 5 years	-	18,696	187,958	35,061	11,459	12,039	265,213	55,482
	20,794	241,708	318,959	120,121	186,352	68,333	956,267	323,857

(g) Total gross exposure and average gross exposure to equity based financing structures by type of financing contract during the previous year and over the period.

As of reporting date, the Bank does not have any equity based financing.

(h) Distribution of impaired financing, past due and not past due financing by type of industry:

A) Dec-31, 2020	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
	RO'000	RO'000	RO'000	RO'000
Personal financing	439,954	527	335	1,054
Non-resident corporate financing	-	-	-	-
Resident corporate financing	577,300	12,759	3,848	10,741
	1,017,254	13,286	4,183	11,795

Dec-31, 2019	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO'000	RO'000	RO'000	RO'000
Personal financing	403,274	246	204	1,047
Non-resident corporate financing	1,380	-	-	6
Resident corporate financing	461,817	423	171	8,353
	866,471	669	375	9,406

B)	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
	RO'000	RO'000	RO'000	RO'000
31-Dec-2020				
Construction	105,206	-	-	5,226
Electricity, gas and water	92,271	-	-	7
Financial institutions	-	-		-
Services	124,673	5,000	1,654	2,202
Personal financing	440,481	527	335	1,054
Government	-	-		-
Non-resident financing	-	-	-	-
Others	267,909	7,766	2,194	3,306
	1,030,540	13,293	4,183	11,795

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO'000	RO'000	RO'000	RO'000
31-Dec-2019				
Construction	88,527	-	-	2,007
Electricity, gas and water	1,581	-	-	2,652
Financial institutions	-	-	-	-
Services	90,212	85	22	642
Personal financing	403,274	246	204	1,047
Government	-	-	-	-
Non-resident financing	1,380	-	-	6
Others	281,498	338	149	3,051
	866,471	669	375	9,406

(i) Distribution of impaired financing and past due financing by geographical distribution:

	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
Dec-31, 2020	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	1,017,273	13,286	4,183	11,795
Other countries	-	-	-	-
Total	1,017,273	13,286	4,183	11,795

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
Dec-31, 2019	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	865,091	669	375	9,400
Other countries	1,380	-	-	6
Total	866,471	669	375	9,406

(j) Distribution of provision with type of Islamic financing asset:

	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
Dec-31, 2020	RO'000	RO'000	RO'000	RO'000
Personal financing	439,954	527	335	1,054
Non-resident corporate financing	-	-	-	-
Resident corporate financing	577,300	12,759	3,848	10,741
	1,017,254	13,286	4,183	11,795

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
Dec-31, 2019	RO'000	RO'000	RO'000	RO'000
Personal financing	403,274	246	204	1,047
Non-resident corporate financing	1,380	-	-	6
Resident corporate financing	461,817	423	171	8,353
	866,471	669	375	9,406

(k) **Change in loss provisions during the financial year**

	2020	2019
	RO'000	RO'000
Balance at 1 January	**11,022**	8,451
Impairment losses / (reversals) during the year for:		
Sales and other receivables (note 7)	**1,203**	1,014
Ijara Muntahia Bittamleek (note 11)	**509**	(850)
Wakala Bil Istethmar (note 12)	**3,342**	501
Musharaka financing (note 9)	**1,143**	2,406
Investments (note 8)	**(45)**	8
Due from banks (note 5)	**4**	6
Inter-bank Wakala investments (note 6)	**(6)**	7
Non-funded facilities (note 20)	**550**	(521)
Total impairment losses	**6,700**	2,571
Balance at 31 Decemeber	**17,722**	11,022

(l) Penalty imposed on customers for default, and the disposition of any monies received as penalty

During the year, RO 38 thousands (Dec 2019: RO 38 thousands) penalty is imposed to customer for delayed payment and RO 38 thousands (2019: RO 38 thousands) has been transferred to organizations such as Zakat Seeb Committee, Oman Charitable Organization and Oman Association of the Care of Holy Quran.

12. Credit Risk Mitigation

- o Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate credit risks that the Bank is exposed to. Credit risk mitigants reduces the credit risk by allowing the Bank to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

12.1 Qualitative Disclosure

- o The Bank only considers Shari'a approved collaterals and guarantees to mitigate credit risk. Assets offered by customer must meet the following criteria to be acceptable as collateral:
  - Assets must be maintaining their value, at the level prevalent at inception, until maturity of the facility approved;
  - Such assets should be easily convertible into cash, if required;
  - There should be a reasonable market for the assets; and
  - The Bank should be able to enforce its right over the assets if necessary

For assets financed under Ijarah Muntahiya Bittamleek, the underlying asset is used to mitigate the default risk (Loss Given Default).

- o The Bank accepts Hamish Jiddiyyah, Urbun, Profit Sharing Investment Accounts, pledged assets, Sukuk (rated/unrated), third party guarantees (by sovereigns, banks, corporate entities and High net-worth Individuals) as risk mitigant.
- o Where eligible collaterals are available against facilities, the Bank takes independent valuation by approved valuators only and ensures that the assets held as collateral meet the criteria mentioned above. The Bank as per the CBO and Basel guidelines takes the value of collateral after applying appropriate haircut before assigning provisions. In cases, whenever the bank acquires/disposes assets as a last resort on fair market value, the decision is on case to case basis to acquire or not for its operations.
- o The Bank considers guarantees and if the risk profile/weight of the guarantor is better than the counterparty then risk weight is applied based on the rating of guarantor.
- o Due to the nature of Islamic banking in which underlying asset must be tangible and acceptable for purpose of transaction structure which has resulted in increased concentration on specific asset/sector type i.e. Real Estate. However, the Bank has adopted a sound and prudent portfolio management and control practices that involve

the minimization of concentration risk by developing and implementing policies and procedures to ensure the diversification of the portfolio.

12.2 Quantitative Disclosure

(a) Disclosure of the total carrying amounts by type of collateral of any assets held as collateral by the Licensee (including any haircuts) and the terms and conditions relating to the pledges

	2020	2019
	RO'000	RO'000
Real Estate	628,846	386,548
Movable Assets	83,417	76,999
Total	712,263	463,547

The value of the collateral is adjusted by relevant haircut as mandated by IBRF. The bank has considered collaterals for the purpose of Expected Credit Loss reserve computation after applying relevant haircut, however for the purpose for calculation of Risk-Weighted assets no collateral is considered except cash.

(b) Disclosure of the carrying amount of assets owned and leased under Ijara Muntahia Bittamleek

	2020	2019
	RO'000	RO'000
Ijarah Muntahia Bittamleek	305,239	318,959

13. Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

13.1 Qualitative Disclosure

- Bank's Liquidity Risk Management is governed by the Liquidity Risk Management Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Liquidity risk policy incorporates contingency funding plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations.
- The Bank monitors its liquidity risk of funding related to current account, saving accounts, investment accountholder on individual basis as well as on aggregate basis through cash flow approach and stock approach.
- Treasury department of the Bank and Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds through Shari'a compliant financing and investment activities.
- The bank has already implemented Basel III standards for liquidity that includes Liquidity Coverage Ratio and Net Stable Funding Ratio. These ratios are used as an indicator to show the Bank's liquidity position to honor its short-term and long-term commitments.
- "Basel III" is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector.
- These measures aim to:
  - o improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
  - o improve risk management and governance
  - o strengthen banks' transparency and disclosures

13.2 Quantitative Disclosure

The related disclosure on Liquidity Risk is given below:

(a) Indicators of exposure to liquidity risk - short-term assets to short-term liabilities

	2020	2019
	RO'000	RO'000
Short-term Assets	434,300	323,547
Short-term Liabilities	530,363	329,783
Short-term Assets to Liabilities	81.89%	98.11%

(b) Indicators of exposure to liquidity risk - liquid assets ratio

	2020	2019
	RO'000	RO'000
Liquid Assets	133,772	133,068
Short-term Liabilities	530,363	329,783
Total Liabilities	1,046,571	734,979
Liquid Asset to Short-term Liabilities	25.22%	40.35%
Liquid Asset to Total Liabilities	12.78%	18.11%

(c) Maturity profile of assets and liabilities

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2020	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	67,443	-	-	-	500	67,943
Inter-bank Wakala and Due from banks	12,996	-	-	-	-	12,996
Financing to customers - net	20,902	166,251	98,023	439,217	263,765	988,158
Financial assets at fair value through equity	17,207	4,471	2,155	53,398	22,809	100,040
Financial assets at amortised cost	-	-	-	1,979	-	1,979
Investment in real estate	-	-	-	14,175	-	14,175
Intangible asset	-	-	-	-	2,264	2,264
Property and equipment	-	-	-	-	1,780	1,780
Other assets	184	1,057	764	7,128	7,791	16,924
Total assets	118,732	171,779	100,942	515,897	298,909	1,206,259
Interbank Wakala	58,338	8,470	-	25,025	-	91,833
Customer accounts, Wakala and unrestricted accountholders	81,809	138,426	166,648	347,143	190,180	924,206
Other liabilities	-	4,585	5,633	13,925	6,034	30,177
Investment risk and profit equalization reserve	-	-	-	-	355	355
Owners' equity	-	-	-	-	159,688	159,688
Total liabilities, equity of unrestricted investment accountholders and owners' equity	140,147	151,481	172,281	386,093	356,257	1,206,259
Net gap	(21,415)	20,298	(71,339)	129,804	(57,348)	-
Cumulative net gap	(21,415)	(1,117)	(72,456)	57,348	-	-

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2019	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	88,793	-	-	-	500	89,293
Inter-bank Wakala and Due from banks	20,776	-	-	-	-	20,776
Financing to customers - net	26,734	138,705	86,844	334,197	243,043	829,523
Financial assets at fair value through equity	4,801	4,947	8,451	36,102	11,803	66,104
Financial assets at amortized cost	-	-	1,993	-	-	1,993
Investment in real estate	-	14,175	-	-	-	14,175
Intangible asset	-	-	-	-	2,367	2,367
Property and equipment	-	-	-	-	1,875	1,875
Other assets	120	724	360	2,798	4,256	8,258
Total assets	141,224	158,551	97,648	373,097	263,844	1,034,364
Interbank Wakala	26,400	21,175	-	19,250	-	66,825
Customer accounts, Wakala and unrestricted accountholders	52,116	115,329	200,345	283,015	146,105	796,910
Other liabilities	-	3,712	8,412	8,501	1,517	22,142
Investment risk and profit equalization reserve	-	-	-	-	580	580
Owners' equity	-	-	-	-	147,907	147,907
Total liabilities, equity of unrestricted investment accountholders and owners' equity	78,516	140,216	208,757	310,766	296,109	1,034,364
Net gap	62,708	18,335	(111,109)	62,331	(32,265)	-
Cumulative net gap	62,708	81,043	(30,066)	32,265	-	-

14. Market Risk

Market risk is the risk of loss due to unfavorable movements in market factors such as profit rates, exchange rates, and commodity and equity prices. The Bank's Market risks arise generally due to open positions in currency, holding common equity, and other products. All such instruments and transactions are exposed to general and specific market movements.

14.1 Qualitative Disclosure

- The Bank seeks to mitigate market risk by employing strategies that correlate rate and price movements of its earning asset and liabilities. The Bank has Assets and Liability Committee (ALCO) which monitors Market and Liquidity Risk on regular basis. The details of market risk faced by the bank are discussed in the following notes.

The principal categories of market risk faced by the Bank are set out below:

Profit Rate Risk

Profit rate risk is the risk that the Bank will incur a financial loss as a result of mismatch in the profit rate on the assets and balances from fund providers. The profit distribution is based on profit sharing agreements instead of guaranteed return to investment account holders. Therefore, the Bank is not subject to any significant profit rate risk.

However, the profit sharing arrangements will result in displaced commercial risk when the Bank's results do not allow the Bank to distribute profits in line with the market rates. In respect of monitoring the impact of profit rate changes on the earnings and economic value of the Bank, the Bank has developed suitable risk management tool that identify gaps based on the repricing of the assets and liabilities. The result of this sensitivity analysis is presented to Assets and Liability Committee to that necessary decision, if required can be taken for protect the interest of the Bank.

Foreign Exchange Risk

Forex risk is the risk that a bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position in an individual foreign currency.

The Bank has exposure in foreign currency. However, significant portion of the foreign currency exposure is in USD and GCC pegged currencies. In addition to this, the Bank has internal limits and mechanism for controlling foreign currency risk for unpegged currencies.

Commodity Price Risk

Commodity price risk is defined as the risk of losses in on- or off-balance sheet position arising from movements in market prices i.e. fluctuations in value in tradable or marketable commodities. The risk related to the current and future volatility of market values of specific assets (for example, the commodity price of Salam asset or the market value of Murabaha assets purchased to be delivered over a specific period).

The Bank however is not exposed to commodity market as the Bank whenever enter into any transaction or specific agreement, the commodity price risk is either hedged or the transaction is performed on spot basis so there is no fluctuation of market price from the moment bank takes an asset in possession and sells an asset to the buyer/customer.

Price Risk

Price Risk or Equity Investment Risk is risk to earnings or capital that results from adverse changes in the value of equity related portfolios of the Bank.

The Bank has investments in Sukuks and Securities. All the investments are marked-to-market on regular basis. All the investment is made after a careful due diligence after taking necessary approvals including from Shari'a to ensure that investments are made as per Shari'a standards. The day-to-day monitoring and management of investments is done by Treasury, Risk Management and Asset Liability Committee of the Bank. All strategic investments are regularly reviewed by Risk Management and Credit and Investment Committee of the Bank.

14.2 Quantitative Disclosure

(a) Breakdown of Market RWA	2020	2019
	RO'000	RO'000
Equity Position	-	-
Foreign Exchange Risk	5,105	11,991
Commodity Risk	-	-
Total	5,105	11,991

(b) **Foreign Exchange Net Open Position to Capital**

	2020	2019
Foreign Exchange Net Open Position to Capital	3.29%	8.31%

As of reporting date, the bank does not have any trading book instruments. Most of the exposure is in USD and OMR is pegged with USD therefore the sensitivity analyses are immaterial to be reported.

(c) **Commodity Net Open Position to Capital**
The Bank does not have any commodity available for sale as of reporting date.

(d) **Equity Net Open Position to Capital**
The Bank does not have any equity in its trading book as of reporting date.

(e) **Total Amounts of assets subject to market risk by type of assets**
The Bank does not have any investments/assets in Trading Book. Market Risk-Weighted assets only comprise Foreign Exchange position which is mentioned above in item (a).

(f) **Measure of Value-at-risk or other sensitivity analyses for different types of market risk**
As of reporting date, the bank does not have any trading book instruments. Majority of the exposure is in USD and other pegged currencies i.e. Saudi Riyal (SAR), Arab Emirates Dirham (AED), Bahrain Dinar (BHD). Since OMR is pegged with USD, therefore the sensitivity analyses are immaterial to be reported.

15. Operational risk

15.1 Qualitative Disclosure

Operational Risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromised, regulatory non-compliance, loss of key staff, and social and environmental impacts. It also includes the risk that arises from the bank's failure to comply with the Sharia rules and principles. Being an Islamic Bank, sharia non-compliance risk is managed by an independent function that ensures bank's adherence to the Sharia standards and rules.

- The Bank has developed operational risk management policy and all the critical controls are implemented at all levels for curtailing operational risk. Each division has processes and systems in place to address operational risks within their area are accordingly performance of the department is reviewed on regular basis. The Risk Appetite statement also sets a target for the Management related to Operational Risk and accordingly business plans, product programs are designed to minimize potential operational risk.
- The Bank has defined process for reporting and escalation of operational incidents that stores in the master database for tracking in future. Also, on an annual basis the potential high risk exposures are identified by each business and support function and accordingly controls are discussed/implemented to minimize risk exposures. The Bank's Sharia Compliance department checks independently the processes on regular basis to ensure there is no sharia related issue that could trigger operational loss to the Bank.
- As per the Bank's policy, operational risk is responsibility of all the staff members and all line managers are responsible for management of operational risk within their unit. Process and Control Improvement is a business as usual for the Bank, accordingly all the line managers are required to perform process and control improvement on regular/need basis to ensure the Bank is not taking any unnecessary risk in carrying out business activities.
- The Bank has well-defined Business Continuity Management policy which is approved by Board of Directors. During the year the Bank also conducted a drill at Head Office to see the Bank's readiness to attend to any major event that could result in major disruption to the Business. The Bank also conducted testing of critical functions at the temporary site established for this purpose, to continue critical transaction in case of any unforeseen events.
- During the reporting period, the Bank ensured continuity of business, despite the lockdown in response to COVID19 led situation, implemented by the government in order to control spread of virus. For this, the Bank enhanced IT capabilities by allowing staff to work from remote location/home with secured access and encouraged customers to conduct transaction securely from e-channels.
- Health and safety was ensured during the period by the Bank for both customers and staff; and necessary guidelines in this regard were issued on regular basis during the reporting period.

15.2 Quantitative Disclosure

(a) RWA Equivalent for Quantitative Operational Risk

- For the purpose of measuring capital charge, the Bank has adopted the Basic Indicator Approach under Basel II for Operational Risk. The approach requires the Bank to provide 15% of the average three years' gross annual income as capital charge for operational risk.

		2020	2019
		RO'000	RO'000
Net income from financing activities		**51,266**	45,330
Add: Net income from investment activities		**4,035**	2,554
Add: Fee income		**5,514**	5,396
Less: Investment Accountholders share of income		**23,369**	21,776
Add : Other Income		**1,809**	1,513
Total Revenues		**39,255**	33,017
Less: Exceptional and extraordinary income		**-**	-
Gross Income		**39,255**	33,017
Gross Income times of Alpha (15%)		**5,888**	4,953
Operational Risk-Weighted Assets	12.5x	**73,603**	61,913
Operational Risk-Weighted Assets (Average of last 3 Years)		**62,106**	51,566

(b) Indicators for Operational risk exposures

	2020	2019
	RO'000	RO'000
• Gross Income taken in RWA calculation	**39,255**	33,017

- There is no Shari'a non-compliance income recognized during the year and whenever such incident happens, the Bank's policy is to transfer such funds to charity.

16. Rate of Return Risk

Rate of Return Risk is the risk of deviations in earnings or economic value due to adverse movement of the yield curve. It is inherent primarily to the banking book mainly through financing and deposits portfolio.

16.1 Qualitative Disclosure

- The profit rate exposure of the Bank arises due to mismatches between contractual maturities or re-pricing of on- and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability Management Committee (ALCO) that reviews the profit rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.
- The sensitivity of the income statement is the effect of the assumed changes in profit rates on the earning for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December, 2020.

16.2 Quantitative

- Indicators Of Exposures To Rate Of Return Risk – Expected Payments/Receipts On Financing And Funding At Different Maturity

	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
Dec-31, 2020	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	67,943	67,943
Inter-bank Wakala and Due from banks	-	-	-	-	-	12,996	12,996
Financing to customers – net	275,564	168,740	97,016	351,527	95,311	-	988,158
Financial assets at fair value through equity	17,150	721	246	53,207	23,000	5,716	100,040
Financial assets at amortized cost	-	-	-	1,979	-	-	1,979
Investment in real estate	-	-	-	-	-	14,175	14,175
Intangible asset	-	-	-	-	-	2,264	2,264
Property and equipment	-	-	-	-	-	1,780	1,780
Other assets	-	-	-	-	-	16,924	16,924
Total assets	292,714	169,461	97,262	406,713	118,311	121,798	1,206,259
Interbank Wakala	-	-	-	-	-	91,833	91,833
Customer accounts, Wakala and unrestricted accountholders	40,890	69,313	62,859	426,297	141,772	183,075	924,206
Other liabilities	-	-	-	-	-	30,177	30,177
Investment risk and profit equalisation reserve	-	-	-	-	355	-	355
Shareholders' equity	-	-	-	-	-	159,688	159,688
Total liabilities and shareholders' equity	40,890	69,313	62,859	426,297	142,127	464,773	1,206,259
On-balance sheet gap	251,824	100,148	34,403	(19,584)	(23,816)	(342,975)	-
Cumulative profit sensitivity gap	251,824	351,972	386,375	366,791	342,975	-	-

Dec-31, 2019	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	89,293	89,293
Inter-bank Wakala and Due from banks	455	-	-	-	-	20,321	20,776
Financing to customers - net	247,559	142,140	90,730	265,524	83,570	-	829,523
Financial assets at fair value through equity	4,741	19,122	5,114	21,927	11,804	3,396	66,104
Financial assets at amortized cost	-	-	1,993	-	-	-	1,993
Investment in real estate	-	-	-	-	-	14,175	14,175
Intangible asset	-	-	-	-	-	2,367	2,367
Property and equipment	-	-	-	-	-	1,875	1,875
Other assets	-	-	-	-	-	8,258	8,258
Total assets	***252,755***	***161,262***	***97,837***	***287,451***	***95,374***	***139,685***	***1,034,364***
Interbank Wakala	-	-	-	-	-	66,825	66,825
Customer accounts, Wakala and unrestricted accountholders	18,359	59,441	72,979	380,316	104,570	161,245	796,910
Other liabilities	-	-	-	-	-	22,142	22,142
Investment risk and profit equalisation reserve	-	-	-	-	580	-	580
Shareholders' equity	-	-	-	-	-	147,907	147,907
Total liabilities and shareholders' equity	18,359	59,441	72,979	380,316	105,150	398,119	1,034,364
On-balance sheet gap	234,396	101,821	24,858	(92,865)	(9,776)	(258,434)	-
Cumulative profit sensitivity gap	234,396	336,217	361,075	268,210	258,434	-	-

- Sensitivity Analysis of the Bank's Profits and The Rate of Return To Price Or Profit Rate Movements In The Market

Impact on earnings due to rate of return risk in the banking book

	2020	2019
	RO'000	RO'000
+200 bps	**4,965**	5,112
+100 bps	**2,483**	2,556
-200 bps	**(4,965)**	(5,112)
-100 bps	**(2,483)**	(2,556)

17. Displaced Commercial Risk

Displaced Commercial Risk (DCR) refers to the magnitude of risks that are transferred to shareholders in order to cushion the Profit Sharing Investment Account (PSIA) from bearing some or all of the risks to which they are contractually exposed in Mudaraba funding contracts. Under a Mudaraba (profit sharing and loss-bearing) contract, in principle, unrestricted PSIA are exposed to the aggregate impact of risks arising from the assets in which their funds are invested, but they benefit from the DCR assumed by the Bank. This risk-sharing is achieved by constituting and using various reserves such as Profit Equalization Reserve (PER), and by adjusting the Mudarib's (Bank as fund manager) profit share in order to smooth the returns payable to the IAH from exposure to the volatility of aggregate returns arising from banking risks, and thereby to enable payment of returns that are competitive in the marketplace.

17.1 Qualitative Disclosure

- The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:
- Profit Equalization Reserve (PER)

  PER comprises amounts appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of a PSIA portion and a shareholders' portion;
- Investment Risk Reserve (IRR)

  IRR comprises amounts appropriated out of the income of IAH after deduction of the Mudarib share of income, to meet any future losses on the investments financed by the PSIA.

The analysis of distribution of Mudaraba profit during the period is as follows:

	2020	2019
Items	RO'000	RO'000
Total distributable profits	**54,752**	47,379
Bank Share As " Mudarib and Rab ul Maal"	**31,383**	25,603
Depositors Share of profits	**15,037**	14,674
Bank Share As " Mudarib"	**7,434**	7,170
Net profit to be distributed to the depositors before IRR & PER	**7,603**	7,504
Investment Risk Reserve "IRR"	**225**	(145)
Profit Equalization Reserve "PER"	**-**	-
Net profit to be distributed to the depositors after IRR & PER	**7603**	7,359

- During the period the Bank did not utilize from PER (2019: Zero) for the purpose of enhancing the returns to depositors
- The Bank is taking all the Risk-Weighted Assets funded by IAH for the purpose of arriving at Total Risk-Weighted Assets and capital requirement is calculated accordingly.

17.2 Quantitative Disclosures

Historical Rate of Return of unrestricted Investment Accountholder:

	2020	2019	2018	2017	2016
	RO'000	RO'000	RO'000	RO'000	RO'000
Profit Earned	**54,752**	47,379	37,968	27,956	17,982
Profit Distributed	**7,603**	7,359	7,679	4,197	1,195
Funds Invested	**365,738**	310,071	322,851	227,777	157,985
Return as % of Funds Invested	**2.08%**	2.37%	2.38%	1.84%	0.76%

18. Contract-Specific Risk

In each type of Islamic Financing asset is exposed to a varying mix of credit and market risk. This mix can also vary according to the stage of the contract. However, the product structure does not change the nature of risk at the stage of contract. Further policy restricts undue exposure of any risk at any given time and all the contracts are in line with Shari'a and regulatory guidelines. Accordingly, capital is required to be allocated for such risk exposures in line with IBRF.

18.1 Qualitative Disclosure

- As of reporting date financing assets only carries credit risk and accordingly capital is allocated as per the required regulations by CBO. The current product mix does not change the nature of risk according to the stage of contract.

18.2 Quantitative Disclosure

Disclosure of Capital Requirements according to different risk categories for each Shari'a compliant financing contract

	2020			2019		
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	Credit risk	Market risk	Risk Weighted Assets	Credit risk	Market risk	Risk Weighted Assets
Ijarah Muntahia Bittamleek	303,905	-	149,616	318,134	-	150,222
Sales Receivable and Other Receivables	208,909	-	181,698	211,058	-	199,762
Wakala Bil Istethmar	298,692	-	498,857	183,672	-	372,703
Musharaka Financing	176,652		141,836	116,659		99,927
Letter of Guarantees	109,311	-	54,656	116,876	-	58,438
Letter of Credit	115,561	-	23,010	18,923	-	3,785
Acceptance and Bills for Collection (Wakala)	880	-	1,393	6,580	-	6,141
Total	1,213,910		1,051,065	971,902		890,978

19. General Disclosure from Corporate Governance

19.1 Qualitative Disclosure

- An important objective of these disclosures is to ensure transparency regarding Shari'a compliance by the Bank and applicable reporting standard. As such all material information are published as soon as practicable while meeting the deadlines set by the disclosure requirements of the CBO and the Bank is compliant with the applicable financial reporting standards.
- Corporate Governance is the system of rules, practices and processes by which the Bank is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in the Bank. These include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining the Bank's objectives, it encompasses practically every sphere of management, from action plans, internal controls, performance measurement and corporate disclosure.
- The Capital Market Authority (CMA) Code of Corporate Governance for Public Listed Companies and the CBO guidelines as per the IBRF Corporate Governance of Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Bank Nizwa complies with all of their provisions. The CMA Code of Corporate Governance can be found at the www.cma.gov.om. Corporate Governance has also been defined more narrowly as the relationship of an entity to its shareholders or more broadly as its relationship to society.

The following disclosure summarizes disclosure of related party:

Dec-31, 2020	Principal shareholders	Sharia Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Sales receivables and other receivables	8	62	174	244
Ijara Muntahia Bittamleek	424	72	1,557	2,053
Musharaka Financing	1,351	-	-	1,351
Customers' accounts	63	6	163	232
Unrestricted investment accountholders / Customers' wakala	1,673	2	268	1,943

Dec-31, 2019	Principal shareholders	Sharia Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Sales receivables and other receivables	11	76	167	254
Ijara Muntahia Bittamleek	432	75	1,591	2,098
Musharaka Financing	142	-	-	142
Customers' accounts	138	1	69	208
Unrestricted investment accountholders / Customers' wakala	3,044	1	127	3,172
Wakala Deposits	3,354	-	-	3,354

The income statement includes the following amounts in relation to transactions with related parties:

Dec-31, 2020	Principal shareholders	Sharia Board	Senior management	Total
	RO'000	**RO'000**	**RO'000**	**RO'000**
Profit account	**54**	**7**	**37**	**98**
Operating expenses	**-**	**-**	**-**	**-**
Staff expense	**-**	**-**	**1,751**	**1,751**
Other expenses	**74**	**58**	**-**	**132**

Dec-31, 2019	Principal shareholders	Sharia Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Profit account	24	7	42	73
Operating expenses	-	-	-	-
Staff expense	-	-	1,814	1,814
Other expenses	63	62	-	125

- During the year the Bank organized general awareness program through workshops, trainings on Islamic Banking and Bank's products and services in all major cities. This initiative brings the professional staff closer to the community and enables visitors to gain in-depth information on all of its products and services. Information related to Islamic Banking products that currently Bank is offering is also available on its website.
- The Bank maintains formal procedure on handling of customer complaints. The Bank has set up a call center equipped with the required resources to respond to customer calls in a professional manner. There is a form for registration of complaints on Bank's website along with the contact details for customer to register their complaints. A dedicated team under supervision of CEO for management of customer complaints and feedbacks on the Bank's products and services is already operational. The customer care and quality services team of the Bank takes active part in resolution of customers' complaint and considers customers' feedback on products and services. All complaints are logged in dedicated system acquired for customer complaints handling and investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints in minimum timeframe. Whenever this is not possible, the customer is contacted directly and timeframe for rectification of complaint is advised. A periodical report on status of complaints is also submitted to CEO, Senior Management and Board of Directors. In order to provide our customers with easy access to financial services, fair terms and pricing and at the same time to ensure that we are remain committed to being at the heart of customers we serve, an independent customer feedback collection is being carried. This will help us to follow our passion to go above and beyond the expectation of our customers in providing enhanced value in the diversity of our products and services.

20. Sharia Governance Disclosures

20.1 Qualitative Disclosure

Compliance to Shari'a principles and requirements are inherently built into the Bank's end-to-end activities and transactions including products & services by following a comprehensive Sharia Governance Framework which comprised of several key elements listed below that sets the standards and implementation that ensure holistic Sharia compliance:

1) **Islamic Banking Regulatory Framework (IBRF)**

A 'rule book' issued by the Central Bank of Oman on Islamic banking that sets guidelines on Shari'a Governance and its relevant Sharia functions, Risk Management and Accounting concepts and general product features which are permitted in Oman for Islamic banks in tandem with Oman Banking Law.

2) **AAOIFI Standards**

Shari'a, Accounting and Governance Standards are published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) [and being referred to by CBO in IBRF]; represent a major reference especially for Shari'a compliance in the Islamic banking sector. Shari'a resolutions which are not readily available in the AAOIFI Shari'a standards are covered by resolutions from SSB.

3) **Shari'a Supervisory Board (SSB)**

SSB members are well-respected Omani and International Shari'a scholars who review and provide Shari'a resolutions and Fatwas on all products and related processes. This is in addition to overall Shari'a supervision and oversight activities to ensure that Bank Nizwa transactions and operations are Shari'a compliant at all times. The Bank's SSB which meets on quarterly basis consists of Sheikh Dr. Mohammad Bin Rashid Al-Gharbi (Chairman), Sheikh Dr Aznan bin Hasan (Deputy Chairman and new member) and Sheikh Ibrahim Bin Nasser Al-Sawwafi (Member). SSB has established a Shari'a Executive Committee (Sharia ExCom) comprising of Sheikh Al-Gharbi and Sheikh Al-Sawwafi, which meets on monthly basis to review Bank's business from a Sharia perspective and accommodate current business requirements. Shari'a ExCom resolutions are based on previous SSB Shari'a guidelines and Fatwas. For record, on the demise of the previous SSB Chairman, Sheikh Dr. Abdul-Sattar Abou-Ghuddah (may Allah be pleased with him) in October 2020, the Bank with recommendation from the Board of Directors and approval from the Central Bank of Oman obtained in December 2020 has appointed Sheikh Dr Aznan as the new SSB member to ensure minimum quorum is met as per IBRF. The Bank's Board and the Management have recorded its highest appreciations to the family of the late Sheikh Dr. Abdul-Sattar on his immense contributions toward the capacity-building on Sharia Governance in Bank Nizwa since the Bank's establishment in 2012. We pray that may Allah bless his soul, accepts all of his good deeds, forgive his sins if any, and gives him the Jannatul Firdaus without hisab.

4) **Internal Sharia Reviewer (ISR) / Head of Sharia:**

ISR assumes the responsibilities of Head of Sharia Department. Functions include supervising Sharia audit and providing Sharia training. The major technical role of ISR is to execute Sharia review financing proposals in coordination with the Head of Sharia Structuring. Review of proposals within current approved product programs and Sharia Supervisory Board guidelines are presented to the respective business units as part of the required documents for execution. This function is the pre-execution Sharia review activity.

In addition to these daily functions, the ISR with assistance from the assigned team member acts as the coordinator for the SSB and prepares the meeting file and the minutes of meetings. Sharia resolutions and guidelines are then communicated to the respective business unit heads for adherence. Any approval required from business units before the next meeting of SSB is communicated by the ISR to SSB members by email for review and providing Sharia resolution. SSB has also delegated specific authorities to Sharia Ex-com whereby its members are entitled to issue Sharia resolutions for such cases. ISR also prepares the agenda and the documents, and minutes of meetings for Sharia Ex-com and communicates its Sharia resolutions to relevant business unit heads.

5) **Shari'a Structuring & Compliance**

This function provides Shari'a review and supervision for business transactions and support function activities before execution (ex-ante) to confirm that structuring has been concluded based on IBRF, AAOIFI, and SSB Shari'a guidelines and controls. Consequently, Shari'a Review Reports (SRR) are prepared to document this supervision activity and presented to Sharia Ex-com and SSB in the monthly and quarterly meetings. This function forms the core of Sharia activity in the department and Bank that is also responsible to advise on any new Product Development activity as well review of Product Program and its ancillary documentations. To support the Sharia compliance activity, Shari'a non-compliance risks are continuously scrutinized, and specific mitigation controls are set to minimize these risks which occur due to un-intentional human errors. Any income of Shari'a non-compliant transactions are diverted to charity as per SSB guidelines.

6) **Shari'a Audit Function**

A dedicated function within the Bank that reports directly to the Bank's SSB, staffed with experienced professionals who conduct Shari'a audit after execution of transactions to confirm adherence to Shari'a guidelines as issued by SSB and per Shari'a reviews (ex-post). The function is also responsible to ensure the Profit Distribution Mechanism on Mudaraba account is properly executed apart from ensuring all incomes generated from banking transactions and services are not tainted which may render it Sharia non-compliant where it has to go to charity. Any Shari'a non-compliance event is immediately reported to Shari'a Ex-com for review and decision and further reported to SSB for next course of action / Sharia rule.

7) External Shari'a Audit

As required by IBRF, the Bank appoints an independent and qualified external Shari'a Auditor to audit the activities of the Bank on an annual basis.

8) Shari'a Training

To ensure that all members of management and staff have sufficient working knowledge of Islamic banking principles and guidelines, Shari'a compliance department staff continues to exert major focus on Shari'a training so that these principles are understood and practiced. Shari'a training also encompasses external parties based on an awareness campaign on Islamic banking for all constituents of society such as school teachers and students, university students, employees in ministries and public sector institutions.

9) Sharia Non-Sharia Compliance Risk:

Based on the Sharia guidelines in the IBRF concerning Sharia Non-Sharia Compliance Risk function, the Manager of Sharia Non-Compliance Risk Unit (SNCRU) identify, measure, monitor, control, and manage Sharia non-compliance risks in the bank arising from failure to comply with Sharia rules and principles as set by IBRF issued by CBO, and Sharia standards issued by AAOIFI, and the Sharia rulings and guidelines issued by SSB. The Manager also assist the ISR in identifying the Sharia non-compliance risk parameters for each department or function.

- SNCRU Measure quantitatively the volume of the identified parameters and detect any Sharia non-compliance events for each parameters.
- SNCRU Monitor the development of the Sharia non-compliance parameters during the year periodically as presented in its monthly/quarterly SNCR Reports.
- SNCRU Provide reasonable control measures to establish assurance of the soundness of operations which prevent violations to Sharia compliance measures and guidelines.

20.2Quantitative Disclosure

Disclosure of the nature, size and number of violations of Sharia compliance during the year

- Sharia Audit Unit conducts ongoing Sharia audit on all business transactions of the bank. Wholesale banking transactions are subject to 100% Sharia audit, while retail transactions are subject to Sharia audit based on sample basis as approved by SSB in the annual Sharia Audit Plan. Sharia audit findings and observations in these transactions are directly reported to Sharia Ex-Com who gives immediate instructions and Sharia ruling regarding any violations. In case the violation is confirmed, Sharia Ex-com diverts the profit of such transaction to charity account, and the same cases are reported to SSB in the quarterly SSB Sharia Audit Report.
- During the period, the Bank did not recognize any Shari'a non-compliant income as revenue and any identified non sharia compliant income has been appropriately transferred to charity.
- All immaterial non-compliances with Shari'ah principles and rules if any have been satisfactorily resolved and matters have been concluded in light of the approvals and guidelines of the Shari'ah supervisory board.
- any amounts determined to be payable / transferable to charity fund have been transferred to the charity fund within reasonable time of identification and as of the date of the financial statements, there is no amount of charity pending transfer to the charity fund. We further confirm that all amounts allocated to charity fund were spent in accordance with the approved charity policy as approved by the Shari'ah Supervisory Board

Disclosure of annual Zakat contributions of the Licensee, where relevant, according to constitution, general assembly or national requirements or as required by the respective SSB

- SSB issues its Sharia compliance certificate where it identifies that Sharia compliance has been observed in the bank's transactions and contracts, and in case of any violation, the observation is listed in the report. In addition, and as per Management decision, SSB certificate also stipulates that Zakat payment is the responsibility of the shareholders.

Remuneration of Sharia board members

- SSB members are compensated for their contribution in the business supervision by an agreed remuneration, in addition to SSB meeting attendance fees. SSB members who participate from outside Oman are also entitled to travel and hotel accommodation expenses.
- During the year, the Bank paid RO 58 thousands (Dec 2019: RO 62 thousands) on account of remuneration to the SSB which includes accommodation, travelling expenses, meeting and annual fees.

21. Disclosures on Remuneration

- In line with the CBO guidelines on remuneration disclosures as part of Pillar III, the Bank has outlined the relevant qualitative and quantitative disclosures in this report.
- The Bank is committed to fair, balanced, performance-oriented compensation practices that align long-term employee and shareholder interests. The policy is aimed to attract, retain and motivate the best people in the industry as it believes that human capital is fundamental to the bank's success.
- The Bank has a Board appointed Human Resource Committee whose primary objectives are – setting the principles, parameters and governance framework for the Bank's compensation policy; and ensuring the Bank is equipped to meet standards of international best practice.

Material Risk Takers

- The Bank has identified the members as material risk takers as their activities have a significant influence on the risk profile of the Bank.
- The main factors that have been used to identify the material risk-takers in the bank are:
    - o the level of the job position in the management hierarchy as defined by grade (arrived at by objective Job Evaluation)
    - o responsibilities of the job that expose it to risk

Remuneration policy

- The scope of the Bank's remuneration policy extends to all employees of the bank and is an integral part of Bank's Human Resource policy.
- Remuneration of employees of control functions like Risk Management, Internal Audit and Compliance is independent of the business performance they oversee and the policy is designed to attract, retain and motivate the best talent in the industry.
- The remuneration for Senior Management of these functions are directly designed and approved by the Board Human Resource Committee.

Performance awards

- Performance awards are based on the achievement of both financial and non-financial objectives. The Performance Management System is aimed at achieving the Bank's business plans and objective through continuous and focused performance of the employees. It uses Key Result Areas/ performance factors and competencies to measure and enhance the performance of employees.
- The policy and payment of reward is in line with CBO guidelines on Sound Compensation Principles and Standards.
- The Bank is committed to follow fair compensation practices where reward will be based on performance. The compensation is designed to contribute to the Bank's objectives and encourages prudent risk taking and adherence to applicable laws, guidelines and regulations.

Quantitative Disclosures

- The Board Human Resource Committee held five meetings in 2020 (2019: five) and RO 9 thousands (2019: RO 9 thousands) was paid to the members in lieu of sitting fees.
- The key management comprises of 15 members (2019: 15 members) of the management executive committee. The below table provides details of key management compensation:

	2020	2019
	RO'000	RO'000
Salaries and Benefits	1,865	1,618
End of Service Benefits	-	33
Total	1,865	1,650

22. Liquidity coverage ratio (LCR)

- The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations require banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. This standard aims to ensure that a bank has an adequate stock of unencumbered High Quality Liquid Assets (HQLA) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the bank to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by management and supervisors, or that the bank can be resolved in an orderly way. Furthermore, it gives the Central Bank additional time to take appropriate measures, should they be regarded as necessary.

2020

Liquidity Coverage Ratio (LCR)	Factor	Book Balance	Adjusted amount
Level 1 assets		RO'000	RO'000
Coins and bank notes	100%	5,443	5,443
Qualifying central bank reserves	100%	34,746	34,746
Qualifying marketable securities from sovereigns, central banks, PSEs and multilateral development banks	100%	16,555	16,555
Domestic sovereign or Central Bank debt for non-0% Risk-Weighted sovereigns	100%	76,168	76,168
Total Level 1 assets		132,913	132,913
Level 2A			
Sovereign, Central Bank, Public Sector Entity (PSE), multilateral development banks assets (qualifying for 20% risk weighing)	85%	802	682
Total Level 2A		802	682
Level 2B			
Qualifying corporate debt securities, rated between A+ and BBB-	50%	-	-
Qualifying common equity shares	50%	57	29
Total Level 2B (maximum 15% of HQLA)		57	29
Total level 2 assets (Maximum 40% of HQLA)		859	710
Total Stock of high quality liquid assets		133,772	133,623
Cash outflows			
Less stable deposits- Retail	10%	247,311	24,731
Term Deposits with residual maturity of more than 30 days	0%	160,303	-
Less stable deposits- Wholesale Funding	10%	231,845	23,185
Non-financial corporates, sovereigns, central banks and PSE	40%	21,204	8,482
Other legal entity customers	100%	58,338	58,338
Currently undrawn portion of credit lines			
Retail and small business	5%	3,067	153
Other Legal entity customers, credit and liquidity facilities	100%	10,658	10,658
Other contingent funding liabilities (Letters of credit, guarantee)	5%	126,329	6,316
Total cash outflows		859,055	131,863
Cash inflows			
All other assets	100%	20,968	20,968
Amounts to be received from retail counterparties	50%	3,724	1,862
Amounts to be received from non-financial wholesale counterparties from transactions other than those listed.	50%	18,374	9,187
Amounts to be received from financial institutions and central banks from transactions other than those listed	100%	-	-
Operational deposits held at other financial institutions	0%	13,012	-
Total cash inflows		56,077	32,016
75% of outflows			98,897
Inflows restricted to 75% of outflows			32,016
Net cash outflows			99,847
LCR (%)			133.83

Liquidity coverage ratio (LCR)

2019

Stock of High Quality Liquid Assets (HQLA)	Factor	Book Balance	Adjusted amount
Level 1 assets		RO'000	RO'000
Coins and bank notes	100%	65,589	65,589
Qualifying marketable securities from sovereigns, central banks, PSEs and multilateral development banks	100%	21,834	21,834
Domestic sovereign or Central Bank debt for non-0% Risk-Weighted sovereigns	100%	33,772	33,772
Total Level 1 assets		121,194	121,194
Level 2A			
Sovereign, Central Bank, Public Sector Entity (PSE), multilateral development banks assets (qualifying for 20% risk weighing)	85%	3,627	3,083
Total Level 2A		3,627	3,083
Level 2B			
Qualifying corporate debt securities, rated between A+ and BBB-	50%	-	-
Qualifying common equity shares	50%	60	30
Total Level 2B (maximum 15% of HQLA)		60	30
Total level 2 assets (Maximum 40% of HQLA)		3,687	3,113
Total Stock of high quality liquid assets		124,881	124,307
Cash outflows			
Less stable deposits- Retail	10%	213,845	21,385
Less stable deposits- Wholesale Funding	10%	134,735	13,474
Non-financial corporates, sovereigns, central banks and PSE	40%	6,954	2,782
Other legal entity customers	100%	**26,400**	**26,400**
Currently undrawn portion of credit lines			
Retail and small business	5%	3,264	163
Other Legal entity customers, credit and liquidity facilities	100%	8,081	8,081
Other contingent funding liabilities (Letters of credit, guarantee)	5%	134,671	6,734
Total cash outflows		658,315	79,017
Cash inflows			
All other assets	100%	12,499	12,499
Amounts to be received from retail counterparties	50%	3,476	1,738
Amounts to be received from non-financial wholesale counterparties from transactions other than those listed.	50%	24,108	12,054
Amounts to be received from financial institutions and central banks from transactions other than those listed	100%	461	461
Operational deposits held at other financial institutions	0%	20,333	-
Total cash inflows		60,877	26,752
75% of outflows			59,263
Inflows restricted to 75% of outflows			26,752
Net cash outflows			52,265
LCR (%)			237.84

23. Net Stable Funding Ratio (NSFR)

The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations require banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. The Net Stable Funding Ratio (NSFR) promotes resilience over a longer-term time horizon by requiring banks to fund their activities with more stable sources of funding on an ongoing basis. As per the CBO regulations, banks are required to have NSFR more than 100%.

2020	Associated factor	Unweighted amount	Weighted amount
Available stable funding		RO'000	RO'000
Tier 1 capital	100%	154,968	154,968
Tier 2 capital (excluding Tier 2 instruments with residual maturity of less than one year)	100%	10,900	10,900
Other liabilities with effective residual maturities of one year or more	100%	20,107	20,107
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	90%	158,565	142,709
Funding with residual maturity of less than one year provided by non-financial corporate customers, Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks	50%	266,176	133,088
All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests)	0%	10,356	-
Total Available Stable Funding			461,771
Required stable funding			
Coins, bank notes and reserves with CBO	0%	80,439	-
Financing to financial institutions and central banks with residual maturities between six months and less than one year	50%	-	-
All other assets not included in the above categories with residual maturity of less than one year, including financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns and PSEs	50%	315,324	157,662
Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach	65%	311,737	202,629
All other assets not included in the above categories, including non-performing financing, financing to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	100%	20,968	20,968
Sub total (A)		728,467	381,258
Off balance sheet exposures			
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	5%	10,658	533
Non contractual obligations such as potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities, structured products where customers anticipate ready marketability, managed funds that are marketed with the objective of maintaining a stable value	5%	126,329	6,316
Sub total (B)		-	6,849
Total Required Stable Funding (A+B)		-	388,107
NSFR (%)		-	118.98

2019	Associated factor	Unweighted amount	Weighted amount
Available stable funding		RO'000	RO'000
Tier 1 capital	100%	144,336	144,337
Tier 2 capital (excluding Tier 2 instruments with residual maturity of less than one year)	100%	7,944	7,944
Other liabilities with effective residual maturities of one year or more	100%	9,029	9,029
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	90%	168,340	151,506
Funding with residual maturity of less than one year provided by non-financial corporate customers, Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks	50%	234,511	117,255
All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests)	0%	12,934	-
Total Available Stable Funding			430,071
Required stable funding			
Coins, bank notes and reserves with CBO	0%	109,114	-
Financing to financial institutions and central banks with residual maturities between six months and less than one year	50%	461	231
All other assets not included in the above categories with residual maturity of less than one year, including financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns and PSEs	50%	296,576	148,288
Unencumbered residential mortgages with a residual maturity of one year or more and woth a risk weight of less than or equal to 35% under the Standardised Approach	65%	279,202	181,482
All other assets not included in the above categories, including non-performing financing, financing to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	100%	12,499	12,499
Sub total (A)		**697,853**	**342,500**
Off balance sheet exposures			
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	5%	8,081	404
Non contractual obligations such as potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities, structured products where customers anticipate ready marketability, managed funds that are marketed with the objective of maintaining a stable value	5%	134,671	6,734
Sub total (B)		-	7,138
Total Required Stable Funding (A+B)		-	349,637
NSFR (%)		-	123.00

End of Basel II Pillar 3 Disclosures

Basel III common disclosure (as per the template to be used during the transition of regulatory adjustments i.e. from 1 January 2013 to 1 January 2018)

		Dec-20	Dec-19
	Common Equity Tier 1 capital: instruments and reserves	**RO'000**	RO'000
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	152,091	152,091
2	Retained earnings	4,188	(5,772)
3	Accumulated other comprehensive income (and other reserves)	3,266	2,159
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
5	Public sector capital injections grandfathered until 1 January 2018		
6	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
7	**Common Equity Tier 1 capital before regulatory adjustments**	**159,545**	**148,478**
8	**Common Equity Tier 1 capital: regulatory adjustments**		
9	Prudential valuation adjustments	**(2,313)**	**(1,729)**
10	Unrealized losses		
11	Goodwill (net of related tax liability)	-	-
12	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(2,264)	(2,367)
13	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
14	Mortgage Servicing rights (amount above 10% threshold)		
15	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
16	Amount exceeding the 15% threshold		
17	of which: significant investments in the common stock of financials		
18	of which: mortgage servicing rights		
19	of which: deferred tax assets arising from temporary differences	-	-
20	National specific regulatory adjustments		
21	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
22	**Total regulatory adjustments to Common equity Tier 1**	**154,968**	**144,382**
23	**Common Equity Tier 1 capital (CET1**	**154,968**	**144,382**
24	**Additional Tier 1 capital: instruments**		
25	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-
26	of which: classified as equity under applicable accounting standards	-	-
27	of which: classified as liabilities under applicable accounting standards 6	-	-
28	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
29	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
30	of which: instruments issued by subsidiaries subject to phase out	-	-
31	**Additional Tier 1 capital before regulatory adjustments**	-	-
32	**Additional Tier 1 capital: regulatory adjustments**		
33	Investments in own Additional Tier 1 instruments		
34	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
35	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-

		Dec-20	Dec-19
36	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
37	National specific regulatory adjustments	-	-
38	**REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT**	-	-
39	of which: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
40	of which: Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	-
41	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
42	Total regulatory adjustments to Additional Tier 1 capital	-	-
43	**Additional Tier 1 capital (AT1)**	**-**	**-**
44	**Tier 1 capital (T1 = CET1 + AT1)**	**154,968**	**144,382**
45	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
47	Directly issued capital instruments subject to phase out from Tier 2	-	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
49	of which: instruments issued by subsidiaries subject to phase out	-	-
50	**Provisions**	**10,900**	**7,403**
51	**Tier 2 capital before regulatory adjustments**	**10,900**	**7,403**
52	Tier 2 capital: regulatory adjustments		
53	Investments in own Tier 2 instruments	-	-
54	Reciprocal cross-holdings in Tier 2 instruments	-	-
55	Total regulatory adjustments to Tier 2 capital	-	-
56	Tier 2 capital (T2)	10,900	7,403
57	Total capital (TC = T1 + T2)	**165,868**	**151,785**
58	**RISK-WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT**		
59	OF WHICH: [INSERT NAME OF AJUSTMENT]	-	-
60	OF WHICH.....	-	-
61	Total Risk-Weighted assets (60a+60b+60c)	**1,212,466**	**1,050,000**
62	Of which: Credit Risk-Weighted assets	1,145,255	986,443
63	Of which: Market Risk-Weighted assets	5,105	11,991
64	Of which: Operational Risk-Weighted assets	62,106	51,566
65	**Capital Ratios**		
66	Common Equity Tier 1 (as a percentage of Risk-Weighted assets)	**12.78%**	**13.75%**
67	Tier 1 (as a percentage of Risk-Weighted assets)	**12.78%**	**13.75%**
68	Total capital (as a percentage of Risk-Weighted assets)	**13.68%**	**14.46%**

Note:

The Central Bank of Oman has approved for the Bank payment of 1.25% cash dividend (RO 1.875 million) from the retained earnings for the year 2020 (2019: nil). The resolution for the dividend distributions will be presented to the shareholders at the Annual General Meeting which will be held on 28 March 2021.

Post dividend distribution, the Capital Adequacy Ratio will reduce from 13.68% to 13.53% (2019: 14.46%) against a minimum regulatory requirement of 12.25% (as per CBO circular Ref. BSD/CB/2020/005 dated June 3, 2020, reduced from 13.5% previously applicable as part of the relief package). Common Equity Tier-1 ratio will reduce from 12.78% to 12.63% (2019: 13.75%), Tier 1 Ratio will reduce from 12.78% to 12.63% (2019: 13.75%).

Table 2 (A)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	RO'000	RO'000	RO'000	RO'000
Assets	**Dec-20**	**Dec-20**	Dec-19	Dec-19
Cash and balances with Central Bank of Oman	67,943	67,943	89,293	89,293
Certificates of deposit	-	-	-	-
Due from banks	12,996	12,996	20,321	20,321
Islamic Financing	988,158	988,158	829,523	829,523
Investments in Sukuk and Securities	102,019	102,019	68,097	68,097
Financing to banks	-	-	455	455
Investment in Assets generated revenue	14,175	14,175	14,175	14,175
Property and equipment	1,780	1,780	1,875	1,875
Deferred tax assets	-	-	-	-
Other assets	19,188	19,188	10,625	10,625
Total assets	1,206,259	1,206,259	1,034,364	1,034,364
Liabilities				-
Due to banks	91,833	91,833	66,825	66,825
Customer deposits	924,561	924,561	797,490	797,490
Current and deferred tax liabilities	-	-	-	-
Other liabilities	30,177	30,177	22,142	22,142
Subordinated Sukuk	-	-	-	-
Total liabilities	1,046,571	1,046,571	886,457	886,457
Shareholders' Equity				
Paid-up share capital	150,000	150,000	150,000	150,000
Share premium	2,091	2,091	2,091	2,091
Legal reserve	3,266	3,266	2,159	2,159
Impairment Reserve	150	150	150	150
Retained earnings	4,188	4,188	(5,772)	(5,772)
Cumulative changes in fair value of investments	(7)	(7)	(721)	(721)
Subordinated debt reserve				
Total shareholders' equity	159,688	159,688	147,907	147,907
Total liability and shareholders' funds	1,206,259	1,206,259	1,034,364	1,034,364

Table 2 (B)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	RO'000	RO'000	RO'000	RO'000
Assets	Dec-20	Dec-20	Dec-19	Dec-19
Cash and balances with CBO	67,943	67,943	89,293	89,293
Balance with banks and money at call and short notice	12,996	12,996	20,776	20,776
Investments	-	-	-	-
Of which Held to Maturity	1,979	1,979	1,993	1,993
Out of investments in Held to Maturity:		-	-	0
Investments in subsidiaries	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-
Available for Sale	-	-	-	-
Of which: Investments in Sukuks and Securities	100,040	100,040	66,104	66,104
Held for Trading	-	-	-	-
Investments in Real Estate	14,175	14,175	14,175	14,175
Islamic Financing Of which :	-	-	-	-
Islamic Financing to domestic banks	-	-	-	-
Islamic Financing to non-resident banks	-	-	-	-
Islamic Financing to domestic customers	959,389	959,389	812,166	812,166
Islamic Financing to non-resident Customers for domestic operations	-	-	-	-
Islamic Financing to non-resident Customers for operations abroad	-	-	1,380	1,380
Islamic Financing to SMEs	28,769	28,769	15,977	15,977
Islamic Financing from Islamic banking window	-	-	-	-
Fixed assets	1,780	1,780	1,875	1,875
Other assets of which:				-
Profit Receivable	15,894	15,894	6,601	6,601
Prepaid Expense	378	378	518	518
Refundable Deposits	83	83	83	83
Goodwill		-	-	-
Other intangibles	2,264	2,264	2,367	2,367
Deferred tax assets	-	-	174	174
Others	569	569	881	881
Debit balance in Profit & Loss account				-
Total Assets	1,206,259	1,206,259	1,034,364	1,034,364
Paid-up Capital	150,000	150,000	150,000	150,000
Of which:				-

Table 2 (B)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	RO'000	RO'000	RO'000	RO'000
Assets	Dec-20	Dec-20	Dec-19	Dec-19
Amount eligible for CET1	159,695	159,695	148,628	148,628
Amount eligible for AT1	-	-	-	-
Reserves & Surplus	(7)	(7)	(721)	(721)
Total Capital	159,688	159,688	147,907	147,907
Deposits Of which:				0
Deposits from banks			-	-
Customer deposits	924,561	924,561	797,490	797,490
Deposits of Islamic Banking window				-
Other deposits(please specify)				-
Borrowings Of which: From CBO		-	-	-
From banks	91,833	91,833	66,825	66,825
From other institutions & agencies	-	-	-	-
Borrowings in the form of bonds, Debentures and Sukuk	-	-	-	-
Others (Please specify)		-	-	-
Other liabilities & provisions Of which:		-	-	-
Creditors and Accrual	13,414	13,414	9,882	9,882
Payment Order	6,231	6,231	3,942	3,942
Profit Payables	5,837	5,837	5,944	5,944
Others	4,695	4,695	2,374	2,374
Total Equity and Liabilities	1,206,259	1,206,259	1,034,364	1,034,364

Disclosure template for main features of regulatory capital instruments

Common equity comprises of 1,500,000,000 equity shares of RO 100 each fully paid up, issued and governed under the law of Sultanate of Oman.

1	Issuer	Bank Nizwa
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for Private placement)	BKNZ:OM
3	Governing law (s) of the instrument Regulatory treatment	Sultanate of Oman
4	Transitional Basel III rules	Tier 1
5	Post-transitional Basel III rules	Eligible
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Paid-up Capital
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	RO 152.091 Millions
9	Par value of instrument	100 Bz
10	Accounting classification	Paid-up Capital
11	Original date of issuance	23-Apr-12
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	if convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	N/A
31	If write-down, write-down trigger (s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

Basel III leverage ratio framework and disclosure requirements - Reports for the year ended

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

(Please refer to paragraph 52 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	Dec-2020	Dec-2019
		RO'000	RO'000
1	Total consolidated assets as per published financial statements	**1,206,259**	1,365,596
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation		
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4	Adjustments for derivative financial instruments		
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)		
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	**125,578**	145,751
7	Other adjustments		
8	**Leverage ratio exposure**	**1,331,837**	1,511,347

Table 2: Leverage ratio common disclosure template

(Please refer to paragraph 53 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	Dec-2020	Dec-2019
		RO'000	RO'000
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,206,259	1,365,596
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	1,206,259	1,365,596
	Derivative Exposures		
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)		
5	Add-on amounts for PFE associated with all derivatives transactions		
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	Total derivative exposures (sum of lines 4 to 10)	-	-
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-	-
	Other Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	336,586	323,857
18	(Adjustments for conversion to credit equivalent amounts)	(211,008)	(178,106)
19	Off-balance sheet items (sum of lines 17 and 18)	125,578	145,751
	Capital and total exposures		
20	Tier 1 capital	154,974	144,593
21	Total exposures (sum of lines 3, 11, 16 and 19)	1,331,837	1,511,347
	Leverage Ratio		
22	**Basel III leverage ratio (%)**	**11.6**	**9.6**

APPENDIX - SHARIA SUPERVISORY BOARD RESOLUTIONS (FATWAS)

Fatwa for "Finished Goods Financing Embedded with Sale Agency

Praise be to Allah, Lord of the worlds, and prayers and peace be upon the most honorable messengers, our master Muhammad, and upon all his family and companions.

Therefore,

The Sharia Supervisory Board of Bank Nizwa (the 'SSB') reviewed the structure and the PPD in relation to "Finished Goods Financing Embedded with Sale Agency" as per the following:

Product Introduction:

Finished Goods Agreement can be used for providing financing facility in transactions where final / transformed goods are available for sale. It is just like a normal sale purchase transaction where a seller (the Customer) sells a good to a buyer (the Bank) on cash basis. The Bank then appoints the Customer as its Agent to sell the same goods to a third party (in cash or credit base).

in this transaction / disbursement bank is buyer who purchases goods against spot payment & immediate delivery (actually or constructively), where customer (seller) is allowed to use sale amount where every he believe suitable / or as per his / her own requirement.

Likewise, it can be used to meet financing requirement of exporters in which the Bank purchases the relevant goods of the customer and the goods are delivered to the Bank. After taking the delivery, these goods are then sold to local buyer or exported to the foreign buyer by exporter acting as the Bank's agent.

Finished Goods Finance will be offered mostly for short term working capital finance, while depending on nature of transaction / business requirement, management may allow the same for longer period.

Customer will also submit independent undertaking to re-purchase goods if goods remained unsold for certain agreed period, and the customer's purchase price for the unit of the goods will be the face value (the cost of purchasing the commodity). It is not permissible to increase the price of selling it to the customer over the cost, except in the event in which asset/goods changes in nature or value at the time of selling the goods back to the seller(costumer).

The SSB hereby confirms, after reviewing the PPD and the structure, that the above PPD of "Finished Goods Financing Embedded with Sale Agency", and structure and process, are compliant with Bank Nizwa's Sharia Supervisory Board resolutions and with the following AAOIFI Sharia standards: (08) Murabaha, (23) Agency and the act of an uncommission Agent/Fadooli, (58) Re-purchase. Provided that the above sharia rules should be taken in account, specially the sharia rules mentioned in AAIOFI standard No. (58) Re- purchase clause (5), and it is also in compliance with the AAOIFI accounting standard No. (1) General Presentation and Disclosure, and other related Sharia and accounting standards, and in accordance with the rules and regulations in the Sultanate of Oman.

The SSB advises to fear Allah Almighty and to have sincere intentions, in the open and in private, and to do good deeds. And Allah knows best.

Sheikh Dr. Muhammad Bin Rashed Al-Gharbi	**Sheikh Ibrahim Bin Naser Al-Sawwafi**
Chairman of Sharia Supervisory Board	Member of Sharia Supervisory Board

Muscat, Tuesday. 01-12-2020 M- 16 of RABEE 2 1442 H
Meeting No. (73/3/3).

Fatwa on Retail Mudaraba High Yield Account

As-Salam Alaykum,

Sharia Supervisory Board at Bank Nizwa reviewed the Retail Mudaraba High Yield Account Product Program Document (PPD) and established the following major execution steps:

1. Mudaraba refers to an investment agreement between two parties: the first of which is the Rabbul Mal / Capital Provider (which for the context of this PPD is the customer) and the second is the Mudarib / Investment Manager (in this case Bank Nizwa).
2. By exchange of offer and acceptance, the Mudarib shall invest the investment amount / Ra'sul Maal for the agreed investment period.
3. The Retail Mudaraba shall be of an unrestricted nature whereby the Mudarib shall invest the investment capital in Sharia compliant investments in its general investment pool, and the Mudarib may mingle its own funds in the Mudaraba investment.
4. Both parties shall agree on the expected profit amount or rate to be generated from this Mudaraba investment in the exchange of offer and acceptance, and may use any well-known market regulated indicator as benchmark to establish the expected profit rate.
5. The Mudaraba investment will become restricted if the capital provider restricts investment in a specific sector or any other restricting condition
6. The key differentiator between this product and other mudaraba-based Retail savings / investment products are its features which entitle the customer who subscribe to this product to have a potentially higher indicative profit rate in comparison to others.
7. Profit will be as stipulated, and both parties may agree to change the distribution ratio with an indication of the period over which their agreement applies, and the Rabbul Mal bears the investment risks and losses, if any.
8. At maturity of the Mudaraba investment, and after collecting its share of profit for the mingled funds in the Mudaraba investment, the Mudarib shall distribute the realized profits as per the agreed profit distribution ratio.
9. The Mudarib is entitled to any profit amount in excess to the agreed expected profit rate as incentive.
10. Amounts may be distributed on account of profit subject to final settlement in comparison to actual realized profit upon maturity of the Mudaraba investment.
11. Weightages of profit will be given to all Mudaraba investments based on the characteristics of the Mudaraba investment, such as the amount, currency, duration of the investment, payment of profits, and other features applied for the purpose of calculating profit.
12. The bank may set the minimum balance amount in the Mudaraba investment as one of the basic requirements to participate in the total Mudaraba amount. Once the investment amount is invested, the profit is calculated on a monthly basis for the investment amount, and the customer will be payable monthly according to the attached account features.
13. The bank has the right to levy minimum balance fees if the bank decides that, based on the actual cost of the accounts, taking into account the proven cost analysis which shall be submitted to the Sharia Supervisory Board from time to time for review and approval. Following after, if that money mingle with the Mudaraba and then it comes down, then it is given at the Mudaraba expense of its points from the profit, if any. If the amount remains declining, it will be transferred from the beginning of the next investment period to a current account, and after that it has no profits.
14. In the event that the Rabbul Mal chooses to terminate the investment, then the Rabbul Mal must immediately send a notice to the Mudarib to terminate the investment. In this case, the Mudarib will be entitled, according to what he deems appropriate and in order to achieve the principle of exit, to apply the profit rates according to the immediate past investment period that the bank has already completed, noting that the minimum to qualify for a profit is at least a month.
15. The Mudaraba investment is automatically renewed for the invested amount and its anticipated profit, and the whole amount will become the new Mudaraba capital, unless the investor requests otherwise, such as to reduce the Mudaraba capital or increases it.
16. The investment base revenues bear direct expenses, which are the actual expenditures that have been paid from the investment and financing operations. As for the administrative and general expenses, it will be borne by the bank.

The direct expenses, if relevant, are as follows:

a) Transportation costs.

b) Technical and legal advice.

c) Translation in specialized offices.

d) Fees and commissions paid to suppliers.

e) Valuation costs and mortgages.

f) 50% of the currency difference (profit / loss)

g) 50% of the revaluation difference (profit / loss).

The Sharia Supervisory Board confirms and declares that the Retail Mudaraba High Yield Account product program is in compliance with Sharia principles and rules as issued by the Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (13) on Mudaraba, and Accounting Standard number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

The Sharia Supervisory Board recommends obedience to Allah, and true intentions in privacy and public, and adhere to best practices to the good of society;

And Allah knows best.

Dr. Abdul-Sattar Abou-Ghuddah
Chairman of Sharia Supervisory Board

Sheikh Ibrahim Al-Sawwafi
Member

Sheikh Muhammad Al-Gharbi
Member

Muscat, 22nd Jamad al'Thani , 1441H Equivalent to February 16, 2020.

Fatwa for "Istisna Embedded with Sale Agency"

Praise be to Allah, Lord of the worlds, and prayers and peace be upon the most honorable messengers, our master Muhammad, and upon all his family and companions.

Therefore,

The Sharia Supervisory Board of Bank Nizwa (the 'SSB') reviewed the structure and the PPD in relation to "Istisna Embedded with Sale Agency" as per the following:

Product Introduction:

Istisna working Capital Finance product is a combination of Istisna and Wakala, AAOIFI Shariah Standard on Istisna allows combination of Istisna and Wakala.

"It is permitted for the IFI, as client, to assign the manufacturer as agent to sell manufactured subject matter after being able of taking possession, to manufacturer's clients and for IFI account; whether the agency is without fees, or with a lump sum fee, or a percentage from the sale price, provided that this agency is not stipulated in the manufacturing contract". Clause 6/9.

Target customers are manufacturing concern which are in need of working capital finance to meet their manufacturing order. There are mainly two types of manufacturing goods.

1) General Goods which are manufactured based on market demand. 2) Goods which are very specific and are made on orders. Both of the mentioned goods can be financed through this product. For specific type of goods, confirmed order from third party will be required.

Through Istisna, Bank Nizwa will fund customer to complete the manufacturing goods and then will make customer as its agent to sale the manufactured goods to third party. Customer will also submit independent undertaking to re-purchase Istisna goods if goods remained unsold for certain agreed period from the date of the sale agency. in which asset changes in nature or value.

The SSB hereby confirms, after reviewing the PPD and the structure, that the above PPD of "Istisna Embedded with Sale Agency", and structure and process, are compliant with Bank Nizwa's Sharia Supervisory Board resolutions and with the following AAOIFI Sharia standards: (11) Manufacturing and Parallel Manufacturing (Istisna'), (23) Agency and the act of an uncommission Agent/Fadooli, (58) Re-purchase. Provided that the above sharia rules should be taken in account, specially the sharia rules mentioned in AAIOFI standard No. (58) Re- purchase clause (5), and it is also in compliance with the AAOIFI accounting standard No. (1) General Presentation and Disclosure, and other related Sharia and accounting standards, and in accordance with the rules and regulations in the Sultanate of Oman.

The SSB advises to fear Allah Almighty and to have sincere intentions, in the open and in private, and to do good deeds. And Allah knows best.

Sheikh Dr. Muhammad Bin Rashed Al-Gharbi
Chairman of Sharia Supervisory Board

Sheikh Ibrahim Bin Naser Al-Sawwafi
Member of Sharia Supervisory Board

Muscat, Thursday. 17-09-2020 M- 29 of Muharam 1442 H

Meeting No. (71/3/3).

Fatwa on Wakala Call Account for Corporate and Retail Clients

As-Salam Alaykum,

Sharia Supervisory Board at Bank Nizwa reviewed the Wakala Call Account Product Program Document (PPD) and established the following major execution steps:

1. The investment agency is concluded between two parties, the first is the investor or capital provider / Muwakkil (which for the context of this PPD is the customer) and the second party is the investment manager /Wakil (in this case Bank Nizwa);
2. Both parties exchange offers and acceptance to agree on the investment transaction and its execution; both parties may agree on the expected profit rate as anticipated and not fixed or guaranteed as a commitment or binding legally to be generated from this Wakala investment in the exchange of offer and acceptance, and may use any suitable indicator as benchmark to establish the expected profit rate.
3. The agency fee is determined by a lump-sum amount or a percentage of the investment amount;
4. The investment agency is binding upon signing it by assigning the agency fee or the investment agreement expiry date, with undertaking not to terminate before expiry of the specified date;
5. The investor makes the investment amount available on the agreed date of investment, and if not paid, the investment offer is considered cancelled;
6. The investment is unrestricted whereby the investment agent is entitled to invest the investment amount in the general treasury investment pool, if a bank, or in the most appropriate investment;
7. The investment is restricted if the capital provider specifies the investment and its conditions, and with including these specifications in the offer and acceptance document;
8. The investment agent does not guarantee profits for the investment amount, but is only a custodian, except for cases of transgression or underperformance or violation to the terms of the investment agreement;
9. The Muwakkil bears all the investment risks, and is entitled to its profits after deducting the agency fee;
10. It is permitted to assign part or all the amount in excess of the investment expected profit in favor of the investment manager as management incentive in addition to the agency fee;
11. It is permitted for the investment agent to pay part or all of the expected profit in advance to the investor after investment and generation of profit, and to pay parts of the expected profit on account, subject to final settlement against the actual realized profit upon termination of the investment;
12. It is permitted for the investor to request early termination of the investment before the agreed date of termination. If the investment manager approves early termination, the investment manager must advise the investor of the profit amount for the relevant investment period, if any.

The Sharia Supervisory Board confirms as a result of the review, that the Wakala Call Account PPD and the Master Investment Agency Agreement are in compliance with Sharia standards issued by the Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (46) on Investment Agency, and Sharia Standard number (23) on Agency, and Accounting Standard number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

The Sharia Supervisory Board recommends obedience to Allah, and true intentions in privacy and public, and adhere to best practices to the good of society;

And Allah knows best.

Sheikh Dr. Abdul-Sattar Abou Ghuddah
Chairman of Sharia Supervisory Board

Sheikh Dr. Muhammad Bin Rashed Al-Gharbi
Chairman of Sharia Supervisory Board

Sheikh Ibrahim Bin Naser Al-Sawwafi
Member of Sharia Supervisory Board
Member

Muscat, 5th Sha'ban , 1441H
Equivalent to March 29, 2020.

Fatwa for Education financing (Education services)

Retail banking: what is the opinion of the Sharia Executive Committee about financing study programs in the educational institutions when the bank buys (rents) the service from the concerned institution(school, college, university etc…) then it leases this service to a student whether it is paid for each semester or for all semesters of study as one payment.?

Answer:

Thank God, the lord of the worlds, peace and prayers upon the most honorable missionaries, our prophet Mohammed and his companions.

The Shariah Supervisory Board has reviewed the request of the Retail Banking section for the approval of financing education services and found that it depends on the details and main operational steps state on the program.

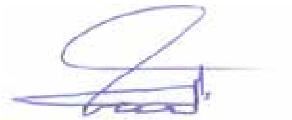
The Shariah Supervisory Board has no objection for financing the educational services as per the following standards:

1. The bank may buy (rent) the service from its provider whether it is bought (rented) in full or for each term/semester.
2. The bank leases the service to the customer as agreed with him, and may buy (rent) it in full and lease it for each term/ semester. If the bank leases the service to the customer in full as it was bought(rented) , it has no right to change the rent amount for the next lease periods (next terms/semesters). But if the bank leases the service separately for each term/ semester, it will have the right to review the amount for the subsequent periods (future terms/semesters)
3. If the bank leases the full service (as one unit) to the customer, it will have the right to request all rental installments in case of breach of payment of two separated or consecutive installments, (all the remaining installments shall fall due in one payment) , even for the period that the customer did not start benefiting of the service. That is by the condition of the acceleration of the rent, which is permissible. In this case, the rent paid in advance for the subsequent periods (terms/semesters) is considered on account and take it is conditions . But if the bank leased it separately (term /semester wise), it has no right to claim the customer except for the instalments of the periods that has received or started using it.
4. The bank has the right to require the option of the condition in its contract with the service provider so that it can terminate the contract in certain cases as mentioned in the contract.
5. If the customer does not wish to benefit from the service for the subsequent terms/semesters , he will not be obliged to pay the fees/rentals for the subsequent terms/semesters in which he did not contract with the bank, but for the term/ semester in which the student started to benefit from the service, he will be pay for it.
6. The service in which the bank contracted with the service provider should not be linked with the service provided to the customer by the bank.
7. Either party has the right to present a binding promise to sell or buy(rent or lease) of the service.

The advisory Fatwa of the Shariah Supervisory Board should be carried out under the title statement of " Shariah Supervisory Board number 5" for the services lease product dated 4/Dhu al-Hajjah/1433, corresponding to: October 20, 2012

Dr. Sheikh Mohammed bin Rashid Al Gharbi
Chairman of Shariah Supervisory Board

Sheikh Ibrahim bin Nasser Al Sawwafi
Member of Shariah Supervisory Board



4 Rabea Althani 1442 H
Corresponding to 19/.11/.2020

Education financing services product

Fatwa: Utilizing Diminishing Partnership as an Alternative for Lease in Purchasing and leaseback"

Decision No (17092020/71/06):

In response to the Corporate Banking department's request of utilizing diminishing Musharaka (Musharaka Mutanaqisah) as an alternative for lease (Ijara) to process the transfer of clients from a conventional bank, financing the requirements of working capital or repayment of the client's current finance in bank Nizwa, and in accordance with principals of purchase and leaseback, required contracts for implementation and the product's document.

The Sharia committee reviewed the cases during which the bank utilize purchase and leaseback with its clients as per the directives of the CBO and approved them based on the terms mentioned for each case. Additionally, the committee considers that would be possible to participate with the customer to purchase a share of an asset owned by the customer and leaseback the bank's share to the customer, provided that it is not sold to the customer except after a reasonable period of time in which the quality of the asset or its value changes. The period shall be one year according to the instructions of the regulatory and supervisory authorities in this regard. This product can be used to cover the following cases:

1- Transferring customers for traditional banks through purchasing a share from a real estate or any asset owned by the client and it is viable for leasing. The value of this is equal of the client's debt with those banks, whether it is a long-term or short-term debt or as a result of an overdraft and the payment of all of his outstanding obligations with those banks, and whether the property / asset is mortgaged to these debts / loans or not.
2- Partnership (Musharaka) product can be used also to restructure the customer's ongoing financing by purchasing a share in a real estate / asset owned by the customer and using the purchase proceeds to pay off the outstanding debts of the customer with Bank Nizwa on the condition that a period in which the asset or its value changes (not less than six months) passes if the asset is financed by the bank through Murabaha or Istisna. The bank can enter into a Musharaka agreement with the customer to buy a share of an asset owned by the customer even if it is not subject to any financing provided by the bank.
3- Partnership (Musharaka) product can be used to fulfil the requirements of the working capital required by the client, whether it is short-term (for a year), medium-term, or long-term financing in case if financing by Murabaha, direct partnership, or investment agency is not possible. As such, the bank purchase a share of the customer's owned asset and leaseback the bank's share to the customer, and the customer uses the proceeds of the sale to cover the working capital and operational expenses required by the company.
4- The Sharia Supervisory board confirms that cases (2 – 3) shall not be promoted as products. They are intended to solve specific cases after determining the client's requiring, assessing his situation, and obtaining the approval of the Sharia department.

For these cases, the same contracts for Diminishing Musharakah, that are approved by the Sharia supervisory board shall be used. The agreement to sell a share of an asset, to be used in the event that the customer sells a share of his property to the bank in the case of sharing ownership of an asset owned by him (The clients) has been approved. The Business department can use the contract approved by the Committee's Decision No. (05/71/17092020), which is approved for retail. busness can referred to the board's decision No. (3/31/25042019) regarding the Fatwa on converting Murabaha to a Lease (Ijara) or Parntership (Musharaka) and its procedures, as well as Decision No. (01/67/16022020) regarding the steps for converting a lease into a partnership.

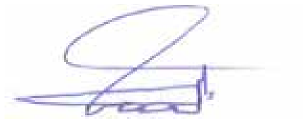
Sharia Supervisory Board confirms that the use of Diminishing Musharakah as a alternative for leasing in purchasing and leaseback and for the aforementioned purposes is in compliance with the Islamic Sharia principles issued by the Sharia Supervisory Board of the bank and Auditing and Accounting Organization for Islamic Financial Institutions (AAOIFI), specifically Shari'a Standard No. (9) Ijarah and Standard No. (12) Musharaka and modern companies, Sharia standard No. (25) combining contracts, Sharia standard No. (58) in repurchase, Accounting Standard No. (01) in public declaration and

disclosure, and other relevant Sharia and accounting standards, and with applicable regulations in the Sultanate of Oman.
Sharia Supervisory Board recommends obedience to Allah, and adherence to sharia law in all practices;
Member of Sharia Supervisory Board

Sheikh Dr. Abdul-Sattar Abou Ghuddah
Chairman of Sharia Supervisory Board

Sheikh Dr. Muhammad Bin Rashed Al-Gharbi
Sharia Supervisory Board member

Sheikh Ibrahim Bin Naser Al-Sawwafi
Sharia Supervisory Board member



Muscat ,29 Muharam,1442H.17/09/2020
(SSB meeting No(71/3/3)

Fatwa for the educational rehabilitation program financing

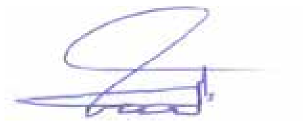
The Sharia Executive Committee of Bank Nizwa received a proposal for financing the educational rehabilitation program which is for the purpose of educational rehabilitation of the graduates who will be joining the education sector. In order to prepare them, they must undergo specialized courses in this field. This program proposes that those graduates should be granted funding to complete this program which will last for two semesters, provided the funds should be reimbursed as instalments over a period of 3 years once these graduates are employed by the Ministry of Education.

Answer:

The Shariah Committee considers that there is no objection for financing the above mentioned program as per the ijarah services product, provided that The advisory Fatwa of the Shariah Supervisory Board should be carried out under the title statement of " Shariah Supervisory Board number 5" for the services lease product dated 4/Dhu al-Hajjah/1433, corresponding to: October 20, 2012.

Dr. Sheikh Mohammed bin Rashid Al Gharbi
Member of Shariah Supervisory Board

Sheikh Ibrahim bin Nasser Al Sawwafi
Member of Shariah Supervisory Board



11Rabea Althani 1441 H
Corresponding to 28.10.2020

Meeting number 72 /3/3