



Bank Muscat SAOG

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021



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Chairman's Report – First Half of the year 2021

Dear Shareholders,

On behalf of the Board of Directors, I would like to share with you the encouraging results achieved by the Bank during the first half of the year ending 30 June 2021. Bank Muscat maintained its focus on successfully navigating through the current macroeconomic environment and playing its role in supporting the Omani economy.

Financial Overview

The bank posted a net profit of RO 94.65 million for the period compared to RO 69.56 million reported during the same period in 2020, an increase of 36.1 per cent, mainly due to lower impairment charges.

Net Interest Income from Conventional Banking and Net Income from Islamic Financing stood at RO 168.44 million for the six months period ended 30 June 2021 compared to RO 160.53 million for the same period in 2020, an increase of 4.9 per cent.

Non-interest income was RO 74.70 million for the six months period ended 30 June 2021 as compared to RO 64.69 million for the same period in 2020, an increase of 15.5 per cent.

Operating expenses for the six months period ended 30 June 2021 was RO 95.12 million as compared to RO 94.03 million for the same period in 2020, an increase of 1.2 per cent.

Net impairment for credit and other losses for the six months period in 2021 was RO 35.33 million as against RO 48.19 million for the same period in 2020. The decrease is mainly attributed to the precautionary and collective provisions created by the bank during first half of 2020, due to the onset of the Covid-19 pandemic and the historic decline seen in global crude oil prices. The bank remains vigilant of the continuing stress in the macro-economic and business conditions and its potential impacts.

Net loans and advances including Islamic financing receivables increased by 2.7 per cent to RO 9,238 million as against RO 8,996 million as at 30 June 2020.

Customer deposits including Islamic Customer deposits increased by 0.3 per cent to RO 8,670 million as against RO 8,645 million as at 30 June 2020.

Strategic Initiatives & Key Developments

Bank Muscat continues to implement the directives of the Supreme Committee for Dealing with COVID-19 while also ensuring availability of banking services across Oman. As part of the efforts to ensure the safety of its employees and customers, the Bank is conducting a vaccination drive for its employees and their spouses. The Bank continues to support eligible retail and corporate customers with financial relief measures in line with regulatory guidelines.

Meanwhile, further digitalisation saw the total number of Mobile and Internet Banking users crossing the 1.2 million mark in 2021. The Bank expanded its e-channel network to 806 devices across Oman, including 474 Automated Teller Machines (ATMs), 129 Cash Deposit Machines (CDMs), 167 Full Function Machines (FFMs), 19 statement printers, 10 Business Cash Deposit Machines (BCDMs), 2 mobile banking units and 5 mobile ATMs, thereby contributing to financial inclusion efforts and economic growth.

Bank Muscat has been enhancing the digital banking experience of its Government-related, Institutional, Corporate and SME customers by delivering new customer-centric solutions and further improving existing ones, leading to better digital adoption. The new Transaction Banking portal addresses the entire value chain of corporates by providing sophisticated analysis of data sets, real-time insights to ensure transparency and great control for corporate customers to make informed decisions. The shift to digitalisation gained further momentum with around 1.5 million transactions amounting to over RO 2 billion being processed through the Bank's corporate digital channels in the first 6 months of 2021. The Bank also launched its Corporate Loan Origination System (CLOS), an end-to-end straight-through processing system for corporate loans.

Meethaq Islamic Banking sustained its strong balance sheet growth with an increase in customer deposits, financing and customer base. Meethaq was mandated as Joint Lead Manager for a Sovereign Sukuk issuance, which was successfully closed in June 2021. Maintaining the growth momentum, Meethaq opened its 24th retail branch and crossed the RO 100 million milestone for Hibati Savings deposits. Meethaq also launched its Private Banking proposition, and enhanced its credit card offering with a co-branded Lulu credit card and a Corporate Purchase Card during this period.

Bank Muscat remains the undisputed market leader in investment banking services in Oman and an 'advisor of choice' for large, complex and novel transactions. The Bank completed a number

of financial advisory and fundraising transactions in the first half of 2021 with an aggregate value of c. US\$ 4.5 billion (c. RO 1.7 billion) including a Rule 144A/RegS sovereign Sukuk issuance and fundraising for a US\$ 2.2 billion sovereign syndicated term loan facility. It tapped into the international capital market for issuance of its five year international senior unsecured notes of US\$ 500 million under the Euro Medium Term Notes (EMTN) programme. The Bank also advised and raised project financing for a leading Omani corporate group. Furthermore, BM Innovate continued to explore Fintech based investments opportunities in international markets alongside seasoned investors.

CSR & Sustainability

In solidarity with national efforts, the Bank contributed an additional RO 1 million to the Ministry of Health to provide COVID-19 vaccines to people in Oman.

The Bank supported the Government's efforts to continue education online during the pandemic by distributing 1,240 tablets and laptops to students across the country as part of its 8th annual Tathamun programme. Bank Muscat also sustained its support for the annual 'Fak Kurba' initiative by the Oman Lawyers Association and in 2021, helped secure the release of 250 individuals who could not clear their financial obligations.

In line with its pioneering role in Corporate Social Responsibility (CSR) and on the occasion of the tenth anniversary of the flagship Green Sports programme, Bank Muscat raised the number of annual beneficiaries from 15 to 20 sports teams across the Sultanate, with the total number of beneficiaries now reaching 143 teams.

Training for two batches of the Al Wathbah SME Academy, comprising 34 Omani entrepreneurs in Ibri and Ibra, was completed. The Bank also continued its 'Maharat min Google' programme to provide digital skills training to over 400 Omani entrepreneurs till date.

The Bank partnered a number of civil society organisations. It donated equipment to the Oman Association for the Disabled as well as visually challenged students as part of its CSR activities during the quarter. Bank Muscat employees also separately raised funds for a number of charity initiatives which delivered support to 330 beneficiaries in 2021.

Committed to strengthening the digitalisation of Oman, the Bank extended support to COMEX 2021 Expo, the largest Technology, Communications, Innovation and Digital Transformation show in the Sultanate.

Awards and Accolades

Bank Muscat was honoured by Forbes Middle East as one of the Top 100 Companies in the Middle East and as one of the Top 50 Banks in the region. It was recognised as the Best Bank in Oman by EMEA Finance and Global Finance, while its pioneering CSR and sustainability initiatives won it EMEA Finance's prestigious Sustainability Award for the Middle East.

In Conclusion

On behalf of the Board of Directors, I take this opportunity to thank our shareholders for the trust reposed in the Bank. The Board of Directors welcomes the measures taken by the Central Bank of Oman and the Capital Market Authority to support the financial market in the Sultanate. We express our sincere gratitude and appreciation to His Majesty Sultan Haitham Bin Tarik for his vision and guidance. We pray to the Almighty Allah to protect our beloved country and keep us all safe and healthy during these extraordinary times.



Khalid bin Mustahail Al Mashani

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021**

| | | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|--|--------------|--------------------|--------------------|--------------------|
| | | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>Notes</i> | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| ASSETS | | | | |
| Cash and balances with Central Banks | | 843,368 | 656,898 | 920,160 |
| Due from banks | 3 | 774,789 | 574,786 | 608,133 |
| Loans and advances | 4 | 7,897,288 | 7,731,286 | 7,812,130 |
| Islamic financing receivables | 4 | 1,340,576 | 1,251,369 | 1,183,942 |
| Investments securities | 5 | 1,732,371 | 1,847,349 | 1,651,570 |
| Other assets | 6 | 231,455 | 320,688 | 212,176 |
| Property, equipment and software | | 66,516 | 71,389 | 71,360 |
| TOTAL ASSETS | | 12,886,363 | 12,453,765 | 12,459,471 |
| LIABILITIES AND EQUITY | | | | |
| LIABILITIES | | | | |
| Deposits from banks | 7 | 1,185,594 | 939,621 | 897,273 |
| Customers' deposits | 8 | 7,518,162 | 7,428,737 | 7,601,416 |
| Islamic customers' deposits | 8 | 1,151,542 | 1,029,768 | 1,044,052 |
| Sukuk | | 90,594 | 90,600 | 90,594 |
| Euro medium term notes | | 390,453 | 390,570 | 391,634 |
| Other liabilities | 9 | 452,659 | 469,802 | 436,814 |
| Taxation | | 36,680 | 47,821 | 29,817 |
| Subordinated liabilities | | 6,600 | 13,198 | 19,775 |
| | | 10,832,284 | 10,410,117 | 10,511,375 |
| EQUITY | | | | |
| Equity attributable to equity holders of parent: | | | | |
| Share capital | 10 | 357,448 | 324,952 | 324,952 |
| Share premium | | 531,535 | 531,535 | 531,535 |
| General reserve | | 397,168 | 397,168 | 384,078 |
| Legal reserve | | 108,318 | 108,318 | 103,160 |
| Revaluation reserve | | 4,904 | 4,904 | 4,904 |
| Subordinated loan reserve | | 13,090 | 13,090 | 13,090 |
| Cash flow hedge reserve | | (48) | (140) | (195) |
| Cumulative changes in fair value | | (2,832) | (3,683) | (8,927) |
| Foreign currency translation reserve | | (2,161) | (2,407) | (2,525) |
| Impairment reserve / restructured loan reserve | | 2,347 | 2,356 | 2,373 |
| Retained earnings | | 514,310 | 537,555 | 465,651 |
| Total equity attributable to the equity holders | | 1,924,079 | 1,913,648 | 1,818,096 |
| Perpetual Tier I capital | | 130,000 | 130,000 | 130,000 |
| TOTAL EQUITY | | 2,054,079 | 2,043,648 | 1,948,096 |
| TOTAL LIABILITIES AND EQUITY | | 12,886,363 | 12,453,765 | 12,459,471 |
| Net assets per share (in RO) | | 0.538 | 0.589 | 0.559 |
| Contingent liabilities and commitments | 11 | 1,819,398 | 1,866,147 | 2,151,997 |

The interim condensed consolidated financial statements were approved by the Board of Directors on 27 July 2021.
The attached notes 1 to 27 form part of these interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**

| | Notes | Unaudited -for six months period ended- | | Unaudited -for three months period ended- | |
|--|-------|--|------------------------|--|------------------------|
| | | 30-Jun-2021 RO' 000 | 30-Jun-2020 RO' 000 | 30-Jun-2021 RO' 000 | 30-Jun-2020 RO' 000 |
| Interest income | 12 | 221,336 | 221,633 | 112,375 | 109,451 |
| Interest expense | 13 | (69,825) | (74,254) | (36,148) | (36,765) |
| Net interest income | | 151,511 | 147,379 | 76,227 | 72,686 |
| Income from Islamic financing / investments | 12 | 37,715 | 34,119 | 19,401 | 17,076 |
| Distribution to depositors | 13 | (20,787) | (20,965) | (10,928) | (10,461) |
| Net income from Islamic financing | | 16,928 | 13,154 | 8,473 | 6,615 |
| Net interest income and income from Islamic financing | | 168,439 | 160,533 | 84,700 | 79,301 |
| Commission and fee income (net) | 14 | 53,620 | 44,279 | 25,721 | 18,106 |
| Other operating income | 15 | 21,076 | 20,411 | 11,300 | 12,190 |
| OPERATING INCOME | | 243,135 | 225,223 | 121,721 | 109,597 |
| OPERATING EXPENSES | | | | | |
| Other operating expenses | | (86,429) | (83,749) | (43,842) | (38,299) |
| Depreciation | | (8,686) | (10,283) | (4,163) | (5,132) |
| | | (95,115) | (94,032) | (48,005) | (43,431) |
| Net impairment losses on financial assets | 16 | (35,328) | (48,190) | (17,245) | (22,456) |
| | | (130,443) | (142,222) | (65,250) | (65,887) |
| PROFIT BEFORE TAXATION | | 112,692 | 83,001 | 56,471 | 43,710 |
| Tax expense | | (18,047) | (13,438) | (8,971) | (7,394) |
| PROFIT FOR THE PERIOD | | 94,645 | 69,563 | 47,500 | 36,316 |
| OTHER COMPREHENSIVE (EXPENSE) INCOME | | | | | |
| Net other comprehensive income (expense) to be reclassified to profit or loss in subsequent periods, net of tax: | | | | | |
| Translation of net investments in foreign operations | | 246 | (229) | 15 | 93 |
| Change in fair value through other comprehensive income (FVOCI) debt investments | | (699) | (1,466) | (155) | 6,523 |
| Change in fair value of cash flow hedge | | 92 | (161) | 92 | 7 |
| | | (361) | (1,856) | (48) | 6,623 |
| Net Other comprehensive (expense) not to be reclassified to profit or loss in subsequent periods, net of tax: | | | | | |
| Change in fair value of FVOCI equity investments | | 950 | (10,345) | 2,230 | 2,288 |
| | | 950 | (10,345) | 2,230 | 2,288 |
| OTHER COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD | | 589 | (12,201) | 2,182 | 8,911 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 95,234 | 57,362 | 49,682 | 45,227 |
| Total comprehensive income for the period attributable to | | | | | |
| Equity holders of Parent Company | | 95,234 | 57,362 | 49,682 | 45,227 |
| Profit attributable to | | | | | |
| Equity holders of Parent Company | | 94,645 | 69,563 | 47,500 | 36,316 |
| Earnings per share (in RO) | | | | | |
| - Basic and diluted | 17 | 0.025 | 0.018 | 0.013 | 0.010 |

Items in other comprehensive income are disclosed net of tax.

The attached notes 1 to 27 form part of these interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**

Attributable to equity holders of parent

| (Unaudited) | Share capital RO' 000 | Share premium RO' 000 | General reserve RO' 000 | Legal reserve RO' 000 | Revaluation reserve RO' 000 | Subordinated loan reserve RO' 000 | Cash flow hedge reserve RO' 000 | Cumulative changes in fair value RO' 000 | Foreign currency translation reserve RO' 000 | Impairment reserve / Reserve for restructured accounts RO' 000 | Retained profits RO' 000 | Total RO' 000 | Perpetual Tier I Capital RO' 000 | Total RO' 000 |
|--|--------------------------|--------------------------|----------------------------|--------------------------|--------------------------------|--------------------------------------|------------------------------------|---|---|---|-----------------------------|------------------|-------------------------------------|------------------|
| Balance at 1 January 2021 | 324,952 | 531,535 | 397,168 | 108,318 | 4,904 | 13,090 | (140) | (3,683) | (2,407) | 2,356 | 537,555 | 1,913,648 | 130,000 | 2,043,648 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 94,645 | 94,645 | - | 94,645 |
| Other comprehensive (expense) income | - | - | - | - | - | - | 92 | 251 | 246 | - | - | 589 | - | 589 |
| Total comprehensive income | - | - | - | - | - | - | 92 | 251 | 246 | - | 94,645 | 95,234 | - | 95,234 |
| Transfer within equity upon disposal of FVOCI equity investments | - | - | - | - | - | - | - | 600 | - | - | (600) | - | - | - |
| Dividends paid (note 10) | - | - | - | - | - | - | - | - | - | - | (81,238) | (81,238) | - | (81,238) |
| Issue of bonus shares (note 10) | 32,496 | - | - | - | - | - | - | - | - | - | (32,496) | - | - | - |
| Transfer from restructured reserve to retained earnings | - | - | - | - | - | - | - | - | - | (9) | 9 | - | - | - |
| Interest paid on perpetual Tier 1 capital | - | - | - | - | - | - | - | - | - | - | (3,565) | (3,565) | - | (3,565) |
| Balance as at 30 June 2021 | 357,448 | 531,535 | 397,168 | 108,318 | 4,904 | 13,090 | (48) | (2,832) | (2,161) | 2,347 | 514,310 | 1,924,079 | 130,000 | 2,054,079 |

Attributable to equity holders of parent

| (Unaudited) | Share capital RO' 000 | Share premium RO' 000 | General reserve RO' 000 | Legal reserve RO' 000 | Revaluation reserve RO' 000 | Subordinated loan reserve RO' 000 | Cash flow hedge reserve RO' 000 | Cumulative changes in fair value RO' 000 | Foreign currency translation reserve RO' 000 | Impairment reserve / Reserve for restructured accounts RO' 000 | Retained earnings RO' 000 | Total RO' 000 | Perpetual Tier I Capital RO' 000 | Total RO' 000 |
|--|--------------------------|--------------------------|----------------------------|--------------------------|--------------------------------|--------------------------------------|------------------------------------|---|---|---|------------------------------|------------------|-------------------------------------|------------------|
| Balance at 1 January 2020 | 309,478 | 531,535 | 384,078 | 103,160 | 4,904 | 13,090 | (34) | (372) | (2,296) | 2,606 | 526,487 | 1,872,636 | 130,000 | 2,002,636 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 69,563 | 69,563 | - | 69,563 |
| Other comprehensive (expense) income | - | - | - | - | - | - | (161) | (11,811) | (229) | - | - | (12,201) | - | (12,201) |
| Total comprehensive (expense) income | - | - | - | - | - | - | (161) | (11,811) | (229) | - | 69,563 | 57,362 | - | 57,362 |
| Transfer within equity upon disposal of FVOCI equity investments | - | - | - | - | - | - | - | 3,256 | - | - | (3,256) | - | - | - |
| Dividends paid (note 10) | - | - | - | - | - | - | - | - | - | - | (108,317) | (108,317) | - | (108,317) |
| Issue of bonus shares (note 10) | 15,474 | - | - | - | - | - | - | - | - | - | (15,474) | - | - | - |
| Transfer from restructured reserve to retained earnings | - | - | - | - | - | - | - | - | - | (233) | 233 | - | - | - |
| Interest paid on perpetual Tier 1 capital | - | - | - | - | - | - | - | - | - | - | (3,585) | (3,585) | - | (3,585) |
| Balance as at 30 June 2020 | 324,952 | 531,535 | 384,078 | 103,160 | 4,904 | 13,090 | (195) | (8,927) | (2,525) | 2,373 | 465,651 | 1,818,096 | 130,000 | 1,948,096 |

Appropriations to legal reserve and sub-ordinated loan reserve are made on an annual basis.

The attached notes 1 to 27 form part of these interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**

| | <i>Unaudited</i> <i>30-Jun-2021</i> <i>RO' 000</i> | <i>Unaudited</i> <i>30-Jun-2020</i> <i>RO' 000</i> |
|---|--|--|
| OPERATING ACTIVITIES | | |
| Profit for the period before taxation | 112,692 | 83,001 |
| Adjustments for : | | |
| Depreciation | 8,686 | 10,283 |
| Net impairment on financial assets | 35,328 | 48,190 |
| (Profit) / Loss on sale of Property and equipment | (20) | (9) |
| (Profit) / Loss on investments | (1,591) | 1,923 |
| Dividend income | (2,163) | (4,237) |
| Operating profit before working capital changes | 152,932 | 139,151 |
| Due from banks | (20,845) | 50,695 |
| Loans and advances | (217,935) | (119,594) |
| Islamic financing receivables | (94,931) | (10,360) |
| Other assets | 90,681 | (21,556) |
| Deposits from banks | 134,773 | 300,155 |
| Customers' deposits | 89,425 | 524,874 |
| Islamic customer deposits | 121,774 | (6,712) |
| Other liabilities | 8,624 | 12,457 |
| Cash from / (used in) operating activities | 264,498 | 869,110 |
| Income taxes paid | (29,708) | (31,661) |
| Net cash from / (used in) operating activities | 234,790 | 837,449 |
| INVESTING ACTIVITIES | | |
| Dividend income | 2,163 | 4,237 |
| Purchase of investments | (97,952) | (108,551) |
| Proceeds from sale of investments | 52,234 | 29,035 |
| Net movement in property and equipment | (3,793) | (2,152) |
| Net cash used in investing activities | (47,348) | (77,431) |
| FINANCING ACTIVITIES | | |
| Dividends paid | (81,238) | (108,317) |
| Interest on Perpetual Tier I capital | (3,565) | (3,585) |
| Subordinated loan paid | (6,545) | (6,545) |
| Net cash used in financing activities | (91,348) | (118,447) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 96,094 | 641,571 |
| Cash and cash equivalents at 1 January | 1,202,078 | 982,185 |
| CASH AND CASH EQUIVALENTS AT 30 June | 1,298,172 | 1,623,756 |
| Cash and cash equivalent comprises of the following: | | |
| Cash and balances with Central Banks | 842,868 | 919,656 |
| Treasury bills | 515,782 | 594,925 |
| Due from banks | 437,980 | 401,057 |
| Deposits from banks | (498,458) | (291,882) |
| | 1,298,172 | 1,623,756 |

The attached notes 1 to 27 form part of these interim condensed consolidated financial statements.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021****1. LEGAL STATUS AND PRINCIPAL ACTIVITIES**

Bank Muscat SAOG (the Bank or the Parent Company) is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial and investment banking activities through a network of 174 branches (30 June 2020 : 170 branches) within the Sultanate of Oman and one branch each in Riyadh, Kingdom of Saudi Arabia and Kuwait. The Bank has representative offices in Dubai, United Arab Emirates, Singapore and Tehran, Iran. The Bank operates in Oman under a banking license issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank has its primary listing on the Muscat Securities Market.

As at 30 June 2021, the Bank and its subsidiary (together, the Group) operates in 6 countries (2020: 6 countries) and employed 3,848 employees (30 June 2020: 3,821 employees).

During 2013, the Parent Company inaugurated "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking license granted by the CBO on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities. The principal activities of Meethaq include: accepting customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes; undertaking Shari'a compliant investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. Meethaq has 24 branches (June 2020 - 21 branches) in the Sultanate of Oman.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES**2.1 BASIS OF PREPARATION**

The unaudited interim condensed consolidated financial statements for the six months period ended 30 June 2021 of the Bank are prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting', applicable regulations of the Central Bank of Oman (CBO) and the Capital Market Authority (CMA).

The unaudited interim condensed financial statements have been prepared on the historical cost basis, modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivative financial instruments, FVOCI investment securities and investment recorded at fair value through profit or loss. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The Islamic window operation of the Parent Company; "Meethaq" uses Financial Accounting Standards ("FAS"), issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), for preparation and reporting of its financial information. Meethaq's financial information is included in the results of the Bank, after adjusting financial reporting differences, if any, between AAOIFI and IFRS.

The functional currency of the Bank is the Rial Omani (RO). These unaudited interim condensed consolidated financial statements of the Bank are prepared in Rial Omani, rounded to the nearest thousands, except as indicated.

The unaudited interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2020. In addition, results of the Group for the period ended 30 June 2021 are not necessarily indicative of the results that may be expected for the financial year 2021.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021****2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.1 BASIS OF PREPARATION (continued)**

In March 2021, Parent Company sold 72.71% stake in its wholly owned subsidiary, Muscat Capital Company (cjsc) (MC), based in Riyadh, Kingdom of Saudi Arabia to SICO BSC (c), a leading regional asset manager, broker, market maker and investment bank (licensed as a wholesale bank by the Central Bank of Bahrain), after obtaining all relevant approvals. The acquisition took place by way of a share swap valued at RO 5.6 million, with 38,563,894 of SICO's treasury shares swapped for a majority stake amounting to 4,362,491 shares out of MC's 6,000,000 total outstanding shares. As a result of the transaction, SICO owns 72.71 per cent of MC while Bank Muscat owns a 9 per cent stake in SICO.

Due to above transaction, the Parent Company shareholding in MC was effectively reduced from 100% to 27.29%. The Group lost control over MC due to disposal of 72.71% stake with control to SICO. Resultantly, MC has been accounted for as disposal of subsidiary and retained stake of 27.29% has been recognized as an FVOCI investment. The statement of profit or loss contains income and expenses of MC upto the date of disposal and assets and liabilities of MC (before acquisition accounting) have been derecognized in full in the statement of financial position at 30 June 2021.

2.2 NEW STANDARDS, IMPLEMENTATIONS AND AMENDMENTS IN EXISTING STANDARDS

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021. The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Bank. The above amendments are effective from 1 January 2021.

2.3 COVID-19 RELATED UPDATES

During H1-21, the Central Bank of Oman had issued certain circulars relating to COVID-19:

1) As per circular BDD/CBS/CB/FLCs/2021/1436 dated 15 March 2021, wherein taking cognizance of the continuing impact of COVID-19 on business/households and to support the banks, CBO has extended the following relaxations:

- Request for deferment of loans instalments / interest / profit for affected borrowers, particularly SME's without impacting risk classification extended till 30 September 2021.
 - No interest-on-interest on the deferred loan instalments to be charged for all affected borrowers.
 - Banks should make efforts to reschedule loans of affected borrowers, without impacting the risk classification.
 - All loans linked to Government projects allowed deferment of risk classification from upto 30 September 2021.
 - Deferral of instalments for Omani citizens who have been laid-off extended by another 12 months. Further, there will be no interest / profit for the entire deferral period.
 - Deferral of instalments for Omani nationals who's salary has been reduced extended till 30 September 2021. Further, there will be no interest/ profit for the entire deferral period.
 - Consequent to the withdrawals of allowance of Govt. units employees, banks allowed to either exceed Debt Burden Ratio or extend the regulatory tenor.
 - Requirement of valuation of residential property every 3 years for 35% risk weight is suspended for 2021, provided a desktop valuation is undertaken and Property has been subjected to valuation by a recognized estate agent at least once, in the last 5 years.
 - Relaxation in LCR upto 75% allowed on a case to case basis.
 - Banks to consider reducing existing fees and to abstain from introducing new ones until Dec 2021
 - Temporary relief on cheque returned extended till 30 September 2021
 - Reduction of interest rate on discounting of T-Bills by another 25 bps.
-

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021****2.3 COVID-19 RELATED UPDATES (continued)**

- Increase in the tenor of repo operation upto a maximum of 6 months & foreign currency swaps upto 1 year.
 - Reduction of interest rate on rediscounting of Bill of Exchange/ Promissory note by further 50 bps.
- 2) As per circular BSD/CB/&FLCs/2021/002 dated 18 March 2021, CBO has provided the following relaxations related to suspension of two-track approach and SICR criteria assesment for 2021:
- Temporary suspension of the two-track approach / parallel run for the computation of additional provisions as per CBO norms for 2021 only.
 - Temporary suspension of Significant Increase in Credit Risk (SICR) criteria assessments for additional accounts for 2021 only.
 - Banks & FLCs shall continue to apply rationale approach towards post-model adjustments and management overlays by applying multiple macro-economic scenarios with careful application of probability weights to each of such scenarios while computing ECL on portfolio basis.

Impact on ECL and Capital adequacy

During 2020, given the emerging nature of the health and economic crisis at that point time, the bank was of the view that the forward looking macro economic data and the PD term structures published by economists and rating agencies during 2020 was 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 regulatory and IASB guidance, as a measure of prudence, wherever necessary, the bank had applied post model adjustments and management judgement overlays while computing the ECL.

During H1-2021, the Bank has now applied the latest available macro-economic variables and PD term structures in its ECL computations. The Bank remains vigilant of the evolving market and business conditions and its potential impact on the ECL and continues to hold adequate amount of collective and precautionary provisions as a mitigant.

Besides, 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 36 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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
3. DUE FROM BANKS

| | <i>Unaudited</i> 30-Jun-2021 RO' 000 | <i>Audited</i> 31-Dec-2020 RO' 000 | <i>Unaudited</i> 30-Jun-2020 RO' 000 |
|----------------------------------|--|--|--|
| At amortised cost / FVOCI | | | |
| Nostro balances | 91,414 | 114,074 | 82,731 |
| Inter-bank placements | 579,812 | 384,782 | 402,996 |
| Loans to banks | 107,254 | 78,426 | 89,084 |
| | 778,480 | 577,282 | 574,811 |
| Less: impairment loss allowance | (3,691) | (2,496) | (4,770) |
| | 774,789 | 574,786 | 570,041 |
| At FVTPL | | | |
| Inter-bank placements | - | - | 38,092 |
| | 774,789 | 574,786 | 608,133 |

4. LOANS AND ADVANCES / ISLAMIC FINANCING RECEIVABLES
Loans and advances - Conventional banking

| | <i>Unaudited</i> 30-Jun-2021 RO' 000 | <i>Audited</i> 31-Dec-2020 RO' 000 | <i>Unaudited</i> 30-Jun-2020 RO' 000 |
|---------------------------------|--|--|--|
| Corporate loans | 3,981,247 | 3,974,065 | 4,010,836 |
| Overdrafts and credit cards | 305,687 | 290,748 | 313,629 |
| Loans against trust receipts | 440,436 | 463,147 | 509,501 |
| Bills purchased and discounted | 114,776 | 111,448 | 99,872 |
| Personal and housing loans | 3,465,342 | 3,254,009 | 3,217,429 |
| | 8,307,488 | 8,093,417 | 8,151,267 |
| Less: Impairment loss allowance | (410,200) | (362,131) | (339,137) |
| | 7,897,288 | 7,731,286 | 7,812,130 |

Islamic financing receivables

| | <i>Unaudited</i> 30-Jun-2021 RO' 000 | <i>Audited</i> 31-Dec-2020 RO' 000 | <i>Unaudited</i> 30-Jun-2020 RO' 000 |
|---------------------------------|--|--|--|
| Housing finance | 491,308 | 491,809 | 486,886 |
| Corporate finance | 845,825 | 751,408 | 686,050 |
| Consumer finance | 42,330 | 42,099 | 40,939 |
| | 1,379,463 | 1,285,316 | 1,213,875 |
| Less: Impairment loss allowance | (38,887) | (33,947) | (29,933) |
| | 1,340,576 | 1,251,369 | 1,183,942 |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
4. LOANS AND ADVANCES / ISLAMIC FINANCING RECEIVABLES (continued)

Movement in impairment loss is analysed below:

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|--|--------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| 1 January | 396,078 | 314,786 | 314,786 |
| Impairment for credit losses | 79,716 | 106,039 | 63,789 |
| Interest reserved during the period | 9,183 | 18,086 | 8,569 |
| Recoveries from impairment for credit losses | (21,024) | (34,711) | (15,464) |
| Reserve Interest recovered during the period | (3,002) | (5,546) | (2,086) |
| Written off during the period | (11,753) | (3,186) | (803) |
| Transfer from / (to) Memorandum portfolio | (156) | 638 | 363 |
| Foreign currency translation difference | 70 | (19) | (85) |
| Other movements | (25) | (9) | 1 |
| At 30 June / 31 December | 449,087 | 396,078 | 369,070 |

At 30 June 2021, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 340.5 million (31 December 2020: RO 337.8 million, 30 June 2020: RO 340.1 million). Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

The maturity profile of loans and advances / Islamic financing receivables was as follows

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|-----------------------------|--------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| On demand or within 1 month | 1,242,008 | 1,361,429 | 1,530,034 |
| 1 to 3 months | 634,590 | 562,576 | 537,422 |
| 4 to 12 months | 865,675 | 677,430 | 708,806 |
| 1 to 5 years | 2,221,739 | 2,362,313 | 2,159,831 |
| More than 5 years | 4,273,852 | 4,018,907 | 4,059,979 |
| | 9,237,864 | 8,982,655 | 8,996,072 |

5. INVESTMENT SECURITIES

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|------------------------------------|--------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| Equity investments: | | | |
| Measured as at FVTPL | 17,525 | 20,765 | 24,240 |
| Designated as at FVOCI | 76,986 | 79,451 | 73,024 |
| Net equity investments | 94,511 | 100,216 | 97,264 |
| Debt investments: | | | |
| Measured at FVOCI | 64,052 | 61,989 | 62,242 |
| Measured at amortised cost | 1,579,819 | 1,688,877 | 1,494,594 |
| Gross Debt investments | 1,643,871 | 1,750,866 | 1,556,836 |
| Less: Impairment loss allowance | (6,011) | (3,733) | (2,530) |
| Net debt investments | 1,637,860 | 1,747,133 | 1,554,306 |
| Total investment securities | 1,732,371 | 1,847,349 | 1,651,570 |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
5. INVESTMENT SECURITIES (continued)

| As at 30 June 2021 (unaudited) | <i>FVTPL</i> | <i>FVOCI</i> | <i>Amortised Cost</i> | <i>Total</i> |
|---|----------------|----------------|---------------------------|------------------|
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| Quoted equities: | | | | |
| Foreign securities | 1,653 | 59,192 | - | 60,845 |
| Other services sector | - | 5,995 | - | 5,995 |
| Unit funds | 2,469 | - | - | 2,469 |
| Financial services sector | 576 | 6,226 | - | 6,802 |
| Industrial sector | - | 1,825 | - | 1,825 |
| | <u>4,698</u> | <u>73,238</u> | <u>-</u> | <u>77,936</u> |
| Unquoted equities: | | | | |
| Foreign securities | 4,163 | 2,108 | - | 6,271 |
| Local securities | 8,664 | 1,640 | - | 10,304 |
| | <u>12,827</u> | <u>3,748</u> | <u>-</u> | <u>16,575</u> |
| Equity investments | <u>17,525</u> | <u>76,986</u> | <u>-</u> | <u>94,511</u> |
| Less: Impairment loss allowance | - | - | - | - |
| Net equity investments | <u>17,525</u> | <u>76,986</u> | <u>-</u> | <u>94,511</u> |
| Quoted debt: | | | | |
| Government bonds | - | 3,544 | 978,158 | 981,702 |
| Foreign bonds | - | 33,983 | 5,064 | 39,047 |
| Local bonds | - | 21,748 | 75,088 | 96,836 |
| | <u>-</u> | <u>59,275</u> | <u>1,058,310</u> | <u>1,117,585</u> |
| Unquoted debt: | | | | |
| Treasury bills | - | - | 515,782 | 515,782 |
| Local bonds | - | 4,777 | 5,727 | 10,504 |
| | <u>-</u> | <u>4,777</u> | <u>521,509</u> | <u>526,286</u> |
| Gross debt investments | - | 64,052 | 1,579,819 | 1,643,871 |
| Less: Impairment loss allowance | - | (2,576) | (3,435) | (6,011) |
| Net debt investments | <u>-</u> | <u>61,476</u> | <u>1,576,384</u> | <u>1,637,860</u> |
| Net investments | <u>17,525</u> | <u>138,462</u> | <u>1,576,384</u> | <u>1,732,371</u> |
| As at 31 December 2020 (Audited) | <i>FVTPL</i> | <i>FVOCI</i> | <i>Amortised Cost</i> | <i>Total</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| Quoted equities: | | | | |
| Foreign securities | 4,552 | 63,738 | - | 68,290 |
| Other services sector | - | 6,153 | - | 6,153 |
| Unit funds | 5,132 | - | - | 5,132 |
| Financial services sector | 582 | 5,614 | - | 6,196 |
| Industrial sector | - | 1,689 | - | 1,689 |
| | <u>10,266</u> | <u>77,194</u> | <u>-</u> | <u>87,460</u> |
| Unquoted equities: | | | | |
| Foreign securities | 2,041 | 602 | - | 2,643 |
| Local securities | 8,156 | 1,655 | - | 9,811 |
| Unit funds | 302 | - | - | 302 |
| | <u>10,499</u> | <u>2,257</u> | <u>-</u> | <u>12,756</u> |
| Net equities portfolio | <u>20,765</u> | <u>79,451</u> | <u>-</u> | <u>100,216</u> |
| Quoted debt: | | | | |
| Government bonds | - | 2,425 | 919,472 | 921,897 |
| Foreign bonds | - | 31,252 | 5,074 | 36,326 |
| Local bonds | - | 22,664 | 75,046 | 97,710 |
| | <u>-</u> | <u>56,341</u> | <u>999,592</u> | <u>1,055,933</u> |
| Unquoted debt: | | | | |
| Treasury bills | - | - | 676,041 | 676,041 |
| Local bonds | - | 5,649 | 13,243 | 18,892 |
| | <u>-</u> | <u>5,649</u> | <u>689,284</u> | <u>694,933</u> |
| Gross debt portfolio | - | 61,990 | 1,688,876 | 1,750,866 |
| Less: Impairment loss allowance | - | (2,874) | (859) | (3,733) |
| Net debt portfolio | <u>-</u> | <u>59,116</u> | <u>1,688,017</u> | <u>1,747,133</u> |
| Net investments | <u>20,765</u> | <u>138,567</u> | <u>1,688,017</u> | <u>1,847,349</u> |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
5. INVESTMENT SECURITIES (continued)

The movement in impairment of debt investments is summarised as follows

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|---|--------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| At 1 January | 3,733 | 1,613 | 1,613 |
| Provided /(reversed) during the period / year | 2,279 | 2,122 | 919 |
| Other movements | (1) | (2) | (2) |
| At 31 March / 31 December | 6,011 | 3,733 | 2,530 |

6. OTHER ASSETS

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|------------------------------------|--------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>Unaudited</i> |
| Acceptances | 152,714 | 143,736 | 120,174 |
| Less: impairment loss allowance | (226) | (178) | (130) |
| Net Acceptances | 152,488 | 143,558 | 120,044 |
| Other debtors and prepaid expenses | 29,320 | 49,793 | 38,267 |
| Positive fair value of derivatives | 30,109 | 35,429 | 39,089 |
| Deferred tax asset | 7,641 | 7,294 | 9,136 |
| Others | 11,897 | 84,614 | 5,640 |
| | 231,455 | 320,688 | 212,176 |

7. DEPOSITS FROM BANKS

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|-----------------------------|--------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| Inter bank borrowings | 415,237 | 350,677 | 305,141 |
| Vostro balances | 66,922 | 40,696 | 43,129 |
| Other money market deposits | 703,435 | 548,248 | 549,003 |
| | 1,185,594 | 939,621 | 897,273 |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
8. CUSTOMERS' DEPOSITS
Conventional customers' deposits

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|------------------|-------------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| Deposit accounts | 2,377,858 | 2,325,602 | 2,464,613 |
| Savings accounts | 3,081,384 | 3,013,526 | 2,940,019 |
| Current accounts | 1,782,377 | 1,767,473 | 1,868,281 |
| Call accounts | 226,922 | 258,564 | 272,934 |
| Margin accounts | 49,621 | 63,572 | 55,569 |
| | <u>7,518,162</u> | <u>7,428,737</u> | <u>7,601,416</u> |

Islamic customers' deposits

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|------------------|-------------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| Deposit accounts | 620,858 | 543,837 | 595,795 |
| Savings accounts | 294,210 | 266,680 | 244,515 |
| Current accounts | 98,839 | 114,207 | 103,747 |
| Call accounts | 53,889 | 24,796 | 19,621 |
| Margin accounts | 83,746 | 80,248 | 80,374 |
| | <u>1,151,542</u> | <u>1,029,768</u> | <u>1,044,052</u> |

The maturity profile of customer's deposits (including Islamic customers' deposits) was as follows:

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|-----------------------------|-------------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| On demand or within 1 month | 936,157 | 827,796 | 852,254 |
| 1 to 3 months | 763,152 | 818,809 | 739,672 |
| 4 to 12 months | 2,173,614 | 2,011,988 | 2,004,677 |
| 1 to 5 years | 3,226,684 | 3,280,928 | 3,484,605 |
| More than 5 years | 1,570,097 | 1,518,984 | 1,564,260 |
| | <u>8,669,704</u> | <u>8,458,505</u> | <u>8,645,468</u> |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
9. OTHER LIABILITIES

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|---|--------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| Other liabilities and accrued expenses | 169,139 | 155,459 | 160,559 |
| Acceptances | 152,714 | 143,736 | 120,174 |
| Impairment on financial guarantees | 37,144 | 63,607 | 50,533 |
| Impairment on undrawn commitments and unutilised limits | 9,638 | 8,999 | 9,422 |
| Lease liabilities | 45,684 | 48,159 | 48,690 |
| Negative fair value of derivatives | 22,037 | 32,001 | 30,804 |
| Unearned discount and interest | 8,723 | 9,579 | 8,349 |
| Employee end of service benefits | 6,714 | 7,396 | 7,417 |
| Deferred tax liability | 866 | 866 | 866 |
| | <u>452,659</u> | <u>469,802</u> | <u>436,814</u> |

10. SHARE CAPITAL AND DIVIDEND

The authorised share capital of the Parent Company is 4,500,000,000 shares of RO 0.100 each (2020: 3,500,000,000 of RO 0.100 each). At 30 June 2021, 3,574,474,792 shares of RO 0.100 each (31 December 2020: 3,249,522,539 shares of RO 0.100 each) have been issued and fully paid. The Bank's shares are listed in Muscat Securities Market, Bahrain stock exchange and London stock exchange. Listing in London stock exchange is through Global Depository Receipts issued by the Bank.

In the Bank's annual general meeting held on 23 March 2021 the shareholders approved a dividend of 35%, 25% in the form of cash and 10% in the form of bonus shares. Thus shareholders received cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 81.238 million on Bank's existing share capital. In addition, they received bonus shares in the proportion of 1 share for every 10 ordinary shares aggregating to 324,952,253 shares of RO 0.100 each amounting to RO 32.496 million.

Shareholders of the Bank who hold 10% or more of the bank's shares are given below:

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|------------------------------|--------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| Number of shares held | | | |
| Royal Court Affairs | 844,805,580 | 768,005,073 | 768,005,073 |
| Dubai Financial Group LLC | 420,590,963 | 382,355,421 | 382,355,421 |
| % of shareholding | | | |
| Royal Court Affairs | 23.63% | 23.63% | 23.63% |
| Dubai Financial Group LLC | 11.77% | 11.77% | 11.77% |

11. CONTINGENT LIABILITIES

| | <i>Unaudited</i> | <i>Audited</i> | <i>Unaudited</i> |
|------------------------------------|--------------------|--------------------|--------------------|
| | <i>30-Jun-2021</i> | <i>31-Dec-2020</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| CONTINGENT LIABILITIES | | | |
| Letters of credit | 348,108 | 307,091 | 365,872 |
| Guarantees | 1,471,290 | 1,559,056 | 1,786,125 |
| | <u>1,819,398</u> | <u>1,866,147</u> | <u>2,151,997</u> |
| COMMITMENTS | | | |
| Irrevocable credit commitments | 314,595 | 394,619 | 358,777 |
| Purchase of property and equipment | 601 | 682 | 967 |
| Partly paid shares | 3,112 | 3,884 | 2,905 |
| | <u>318,308</u> | <u>399,185</u> | <u>362,649</u> |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
12. INTEREST INCOME / INCOME ON ISLAMIC FINANCING / INVESTMENT

| | <i>Unaudited</i> <i>-for six months period ended-</i> <i>30-Jun-2021</i> <i>RO' 000</i> | <i>Unaudited</i> <i>30-Jun-2020</i> <i>RO' 000</i> | <i>Unaudited</i> <i>-for three months ended-</i> <i>30-Jun-2021</i> <i>RO' 000</i> | <i>Unaudited</i> <i>30-Jun-2020</i> <i>RO' 000</i> |
|------------------------------|--|--|---|--|
| Loans and advances | 190,263 | 194,389 | 96,384 | 96,386 |
| Due from banks | 3,571 | 7,651 | 1,908 | 2,982 |
| Investments | 27,502 | 19,593 | 14,083 | 10,083 |
| | <u>221,336</u> | <u>221,633</u> | <u>112,375</u> | <u>109,451</u> |
| Islamic financing receivable | 33,693 | 30,915 | 17,373 | 15,455 |
| Islamic due from banks | 21 | 503 | 17 | 262 |
| Islamic investment | 4,001 | 2,701 | 2,011 | 1,359 |
| | <u>37,715</u> | <u>34,119</u> | <u>19,401</u> | <u>17,076</u> |
| | <u>259,051</u> | <u>255,752</u> | <u>131,776</u> | <u>126,527</u> |

13. INTEREST EXPENSE / DISTRIBUTION TO DEPOSITORS

| | <i>Unaudited</i> <i>-for six months period ended-</i> <i>30-Jun-2021</i> <i>RO' 000</i> | <i>Unaudited</i> <i>30-Jun-2020</i> <i>RO' 000</i> | <i>Unaudited</i> <i>-for three months ended-</i> <i>30-Jun-2021</i> <i>RO' 000</i> | <i>Unaudited</i> <i>30-Jun-2020</i> <i>RO' 000</i> |
|----------------------------|--|--|---|--|
| Customer's deposits | 54,799 | 56,247 | 27,934 | 28,517 |
| Subordinated liabilities | 295 | 672 | 109 | 297 |
| Bank borrowings | 5,474 | 8,901 | 2,851 | 3,910 |
| Euro medium term notes | 9,257 | 8,434 | 5,254 | 4,041 |
| | <u>69,825</u> | <u>74,254</u> | <u>36,148</u> | <u>36,765</u> |
| Islamic customers deposits | 16,104 | 15,836 | 8,456 | 8,123 |
| Islamic bank borrowings | 2,258 | 2,710 | 1,252 | 1,128 |
| Sukuk | 2,425 | 2,419 | 1,220 | 1,210 |
| | <u>20,787</u> | <u>20,965</u> | <u>10,928</u> | <u>10,461</u> |
| | <u>90,612</u> | <u>95,219</u> | <u>47,076</u> | <u>47,226</u> |

Interest expense on customer deposits include accruals towards prize schemes of RO 5.5 million (30 June 2020: RO 5.5 million) offered by the bank to its saving deposit holders. Profit distribution on Islamic customers deposits include accruals towards prize schemes of RO 0.75 million (30 June 2020: RO 0.5 million) to its saving deposit holders.

14. COMMISSION AND FEES INCOME (NET)

The commission and fees shown in the interim condensed consolidated statement of comprehensive income is net off commission and fees paid of RO 682 thousands (30 Jun 2020 : RO 696 thousands).

15. OTHER OPERATING INCOME

| | <i>Unaudited</i> <i>-for six months period ended-</i> <i>30-Jun-2021</i> <i>RO' 000</i> | <i>Unaudited</i> <i>30-Jun-2020</i> <i>RO' 000</i> | <i>Unaudited</i> <i>-for three months ended-</i> <i>30-Jun-2021</i> <i>RO' 000</i> | <i>Unaudited</i> <i>30-Jun-2020</i> <i>RO' 000</i> |
|--|--|--|---|--|
| Foreign exchange | 17,096 | 17,785 | 8,603 | 8,544 |
| Changes in fair value of financial assets | 1,204 | (1,862) | 1,088 | 1,207 |
| Net realised gain (loss) on sale of fair value investments | 387 | (61) | 400 | (128) |
| Dividend income | 2,163 | 4,237 | 1,116 | 2,348 |
| Other income | 226 | 312 | 93 | 219 |
| | <u>21,076</u> | <u>20,411</u> | <u>11,300</u> | <u>12,190</u> |

Dividend income recognised on FVOCI investments during the period ended 30 June 2021 is RO 1,695 thousands. (30 June 2020: RO 3,575 thousands), out of which RO 154 thousands (30 June 2020: RO 61 thousand) pertains to investments sold during this period.

16. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

| | <i>Unaudited</i> <i>-for six months period ended-</i> <i>30-Jun-2021</i> <i>RO' 000</i> | <i>Unaudited</i> <i>30-Jun-2020</i> <i>RO' 000</i> | <i>Unaudited</i> <i>-for three months ended-</i> <i>30-Jun-2021</i> <i>RO' 000</i> | <i>Unaudited</i> <i>30-Jun-2020</i> <i>RO' 000</i> |
|--|--|--|---|--|
| (Impairment) / reversal of impairment for credit losses: | | | | |
| - Due from banks | (1,195) | (4,004) | (177) | (3,618) |
| - Loans and advances to customers | (79,716) | (63,789) | (38,040) | (28,689) |
| - Financial guarantees | 26,491 | 3,353 | 12,528 | 1,617 |
| - Acceptances | (48) | 14 | (48) | 86 |
| - Loan commitments / unutilised limits | (640) | 1,314 | (901) | 665 |
| - Investments | (2,279) | (919) | (1,347) | (134) |
| | <u>(57,387)</u> | <u>(64,031)</u> | <u>(27,985)</u> | <u>(30,073)</u> |
| Recoveries from impairment losses | 21,024 | 15,464 | 10,597 | 7,472 |
| Recoveries from loans written off earlier | 1,035 | 377 | 143 | 145 |
| | <u>22,059</u> | <u>15,841</u> | <u>10,740</u> | <u>7,617</u> |
| | <u>(35,328)</u> | <u>(48,190)</u> | <u>(17,245)</u> | <u>(22,456)</u> |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
17. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders (after adjusting for interest on perpetual tier I capital) for the period by the weighted average number of ordinary shares outstanding during the period as follows:

| | <i>Unaudited -for six months period ended-</i> | <i>Unaudited -for three months period ended-</i> | <i>Unaudited -for six months period ended-</i> | <i>Unaudited -for three months period ended-</i> |
|--|--|--|--|--|
| | <i>30-Jun-2021</i> | <i>30-Jun-2020</i> | <i>30-Jun-2021</i> | <i>30-Jun-2020</i> |
| | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| Profit for the period | 94,645 | 69,563 | 47,500 | 36,316 |
| Less: Interest on Perpetual Tier I capital | (3,565) | (3,585) | (1,802) | (1,802) |
| Profit attributable to ordinary shareholders of parent company for basic and diluted earnings per share (RO 000's) | 91,080 | 65,978 | 45,698 | 34,514 |
| Weighted average number of shares in issue during the period (000's) | 3,574,475 | 3,574,475 | 3,574,475 | 3,574,475 |
| Basic and diluted earnings per share (RO) | 0.025 | 0.018 | 0.013 | 0.010 |

There are no instruments that are dilutive in nature, hence the basic and diluted earnings per share are same for both the periods.

18. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. The terms of these transactions are approved by the Bank's Board and Management. The balances in respect of related parties included in the interim condensed consolidated statement of financial position as at the reporting date are as follows:

| | <i>Unaudited 30-Jun-2021 RO' 000</i> | <i>Audited 31-Dec-2020 RO' 000</i> | <i>Unaudited 30-Jun-2020 RO' 000</i> |
|--|--|--|--|
| a) Directors and senior management | | | |
| Loans and advances | 594 | 746 | 861 |
| Current, deposit and other accounts | 1,935 | 1,688 | 1,709 |
| b) Major shareholders and others | | | |
| Loans and advances (gross) | 119,029 | 126,724 | 186,382 |
| Current, deposit and other accounts | 53,125 | 23,787 | 20,510 |
| Customers' liabilities under documentary credits, guarantees and other commitments | 5,576 | 6,256 | 7,081 |

The income and expenses in respect of related parties included in the interim condensed consolidated financial statements are as follows:

| | <i>Unaudited -for six months period ended- 30-Jun-2021 RO' 000</i> | <i>Unaudited -for three months period ended- 30-Jun-2020 RO' 000</i> | <i>Unaudited -for six months period ended- 30-Jun-2021 RO' 000</i> | <i>Unaudited -for three months period ended- 30-Jun-2020 RO' 000</i> |
|---|--|--|--|--|
| a) Directors and senior management | | | | |
| Interest income | 14 | 18 | 6 | 2 |
| Interest expenditure | 25 | 24 | 11 | 11 |
| b) Major shareholders and others | | | | |
| Interest income | 3,105 | 5,068 | 1,582 | 2,503 |
| Interest expenditure | 255 | 357 | 157 | 258 |

Loans, advances or receivables and non-funded exposure due from related parties or holders of 10 percent or more of Banks shares, or their family members, less all provisions and write-offs, is further analysed as follows:

| | <i>Unaudited 30-Jun-2021 RO' 000</i> | <i>Audited 31-Dec-2020 RO' 000</i> | <i>Unaudited 30-Jun-2020 RO' 000</i> |
|--|--|--|--|
| Royal Court Affairs | 13,772 | - | 39,436 |
| HE Sheikh Mustahail Ahmed Al Mashani Group Companies | 29,334 | 33,176 | 42,166 |
| Others | 82,093 | 100,550 | 112,722 |
| | <u>125,199</u> | <u>133,726</u> | <u>194,324</u> |

Items of expense which were paid to related parties or holders of 10 percent or more of the bank's shares, or their family members, during the period can be further analysed as follows:

| | <i>Unaudited -for six months period ended- 30-Jun-2021 RO' 000</i> | <i>Unaudited -for three months period ended- 30-Jun-2020 RO' 000</i> | <i>Unaudited -for six months period ended- 30-Jun-2021 RO' 000</i> | <i>Unaudited -for three months period ended- 30-Jun-2020 RO' 000</i> |
|--|--|--|--|--|
| Royal Court Affairs | 98 | 140 | 76 | 127 |
| HE Sheikh Mustahail Al Mashani Group Companies | 157 | 217 | 81 | 131 |
| Others | 25 | 24 | 11 | 11 |
| | <u>280</u> | <u>381</u> | <u>168</u> | <u>269</u> |

Directors remuneration and sitting fees during the period ended 30 June 2021 is RO 235 thousands (30 June 2020: RO 133 thousands)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
19. DERIVATIVES

| As at 30 June 2021 (unaudited) | Positive fair value RO' 000 | Negative fair value RO' 000 | Notional total RO' 000 | Notional amounts by term to maturity | | |
|-----------------------------------|-----------------------------------|-----------------------------------|------------------------------|--------------------------------------|------------------------|------------------------|
| | | | | 0-3 months RO' 000 | 4-12 months RO' 000 | > 12 months RO' 000 |
| Cash flow hedge | - | 56 | 6,545 | - | 6,545 | - |
| Interest rate swaps | 18,874 | 18,009 | 843,084 | - | 69,454 | 773,630 |
| Commodities purchase contracts | 1,628 | 331 | 38,417 | 24,184 | 14,233 | - |
| Commodities sale contracts | 636 | 1,838 | 38,418 | 24,185 | 14,233 | - |
| Forward purchase contracts | 322 | 1,731 | 1,516,943 | 539,819 | 287,089 | 690,035 |
| Forward sales contracts | 8,649 | 72 | 1,507,040 | 535,936 | 284,159 | 686,945 |
| Total | 30,109 | 22,037 | 3,950,447 | 1,124,124 | 675,713 | 2,150,610 |

| As at 31 December 2020 (audited) | Positive fair value RO' 000 | Negative fair value RO' 000 | Notional total RO' 000 | Notional amounts by term to maturity | | |
|-------------------------------------|-----------------------------------|-----------------------------------|------------------------------|--------------------------------------|------------------------|------------------------|
| | | | | 0-3 months RO' 000 | 4-12 months RO' 000 | > 12 months RO' 000 |
| Fair value hedge | 1,592 | - | 192,500 | - | 192,500 | - |
| Cash flow hedge | - | 164 | 13,090 | - | 13,090 | - |
| Interest rate swaps | 25,554 | 24,615 | 743,215 | - | 70,392 | 672,823 |
| Commodities purchase contracts | 1,263 | 191 | 27,978 | 20,077 | 7,901 | - |
| Commodities sale contracts | 209 | 1,251 | 27,978 | 20,077 | 7,901 | - |
| Forward purchase contracts | 684 | 293 | 1,723,478 | 1,259,448 | 444,446 | 19,584 |
| Forward sales contracts | 6,127 | 5,487 | 1,718,539 | 1,259,679 | 439,514 | 19,346 |
| Total | 35,429 | 32,001 | 4,446,778 | 2,559,281 | 1,175,744 | 711,753 |

| As at 30 June 2020 (unaudited) | Positive fair value RO' 000 | Negative fair value RO' 000 | Notional total RO' 000 | Notional amounts by term to maturity | | |
|-----------------------------------|-----------------------------------|-----------------------------------|------------------------------|--------------------------------------|------------------------|------------------------|
| | | | | 0-3 months RO' 000 | 4-12 months RO' 000 | > 12 months RO' 000 |
| Fair value hedge | 2,593 | - | 192,500 | - | 192,500 | - |
| Cash flow hedge | - | 230 | 19,635 | - | - | 19,635 |
| Interest rate swaps | 22,611 | 22,611 | 808,349 | - | 197,254 | 611,095 |
| Commodities purchase contracts | 2,767 | 2,524 | 73,476 | 57,820 | 13,972 | 1,684 |
| Commodities sale contracts | 2,714 | 2,629 | 73,476 | 57,820 | 13,972 | 1,684 |
| Forward purchase contracts | 507 | 1,646 | 2,086,751 | 1,045,018 | 975,586 | 66,147 |
| Forward sales contracts | 7,897 | 1,164 | 2,075,544 | 1,041,749 | 968,828 | 64,967 |
| Total | 39,089 | 30,804 | 5,329,731 | 2,202,407 | 2,362,112 | 765,212 |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
20. SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive committee that are used to make strategic decisions. The committee considers the business from both a geographic and product perspective. Geographically, management considers the performance of whole bank in Oman and International markets. The Oman market is further segregated into corporate, consumer, wholesale and Islamic banking as all of these business lines are located in Oman. Segment information in respect of geographical locations is as follows:

| <i>Unaudited</i> | <i>Unaudited</i> | <i>Unaudited</i> | | <i>Unaudited</i> | <i>Unaudited</i> | <i>Unaudited</i> |
|--------------------|----------------------|--------------------|---|--------------------|----------------------|--------------------|
| <i>30-Jun-2020</i> | <i>30-Jun-2020</i> | <i>30-Jun-2020</i> | | <i>30-Jun-2021</i> | <i>30-Jun-2021</i> | <i>30-Jun-2021</i> |
| <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> | | <i>RO' 000</i> | <i>RO' 000</i> | <i>RO' 000</i> |
| <i>Total</i> | <i>International</i> | <i>Oman</i> | | <i>Oman</i> | <i>International</i> | <i>Total</i> |
| 221,633 | 5,899 | 215,734 | Interest income | 218,293 | 3,043 | 221,336 |
| (74,254) | (3,420) | (70,834) | Interest expense | (68,916) | (909) | (69,825) |
| 34,119 | - | 34,119 | Income from Islamic financing | 37,715 | - | 37,715 |
| (20,965) | - | (20,965) | Distribution to depositors | (20,787) | - | (20,787) |
| 44,279 | 1,705 | 42,574 | Commission and fee income (net) | 52,901 | 719 | 53,620 |
| 20,411 | 2,787 | 17,624 | Other operating income | 20,737 | 339 | 21,076 |
| 225,223 | 6,971 | 218,252 | | 239,943 | 3,192 | 243,135 |
| | | | Operating expenses | | | |
| (83,749) | (2,434) | (81,315) | Other operating expenses | (84,371) | (2,058) | (86,429) |
| (10,283) | (307) | (9,976) | Depreciation | (8,483) | (203) | (8,686) |
| (94,032) | (2,741) | (91,291) | | (92,854) | (2,261) | (95,115) |
| (48,190) | (9,367) | (38,823) | Net impairment losses on financial assets | (35,526) | 198 | (35,328) |
| (13,438) | (207) | (13,231) | Tax expense | (18,028) | (19) | (18,047) |
| (155,660) | (12,315) | (143,345) | | (146,408) | (2,082) | (148,490) |
| 69,563 | (5,344) | 74,907 | Profit (Loss) for the period | 93,535 | 1,110 | 94,645 |
| | | | Other information | | | |
| 12,459,471 | 460,081 | 11,999,390 | Total assets | 12,574,456 | 311,907 | 12,886,363 |
| 10,511,375 | 398,465 | 10,112,910 | Total liabilities | 10,584,640 | 247,644 | 10,832,284 |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
20. SEGMENTAL INFORMATION (continued)

The Group reports the segment information by the following business segments Corporate, Consumer, Wholesale, International and Islamic banking. The following table shows the distribution of the Group's operating income, net profit and total assets by business segments:

| 30 June 2021 (unaudited) | <i>Corporate banking</i> RO '000 | <i>Consumer banking</i> RO '000 | <i>Wholesale banking</i> RO '000 | <i>International banking*</i> RO '000 | <i>Subtotal</i> RO '000 | <i>Islamic banking</i> RO '000 | <i>Total</i> RO '000 |
|--------------------------------------|---|--|---|--|----------------------------|---------------------------------------|-------------------------|
| Segment revenue | | | | | | | |
| Net interest income | 56,806 | 71,107 | 21,318 | 2,280 | 151,511 | - | 151,511 |
| Net income from Islamic financing | | | | | - | 16,928 | 16,928 |
| Commission, fees and other income | 10,648 | 35,594 | 25,889 | 710 | 72,841 | 1,855 | 74,696 |
| Operating income | 67,454 | 106,701 | 47,207 | 2,990 | 224,352 | 18,783 | 243,135 |
| Segment costs | | | | | | | |
| Operating expenses | (16,227) | (61,276) | (7,938) | (3,111) | (88,552) | (6,563) | (95,115) |
| Impairment (net) | (15,859) | (8,664) | (2,313) | (2,815) | (29,651) | (5,677) | (35,328) |
| Tax expense | (5,515) | (5,732) | (5,762) | (19) | (17,028) | (1,019) | (18,047) |
| | (37,601) | (75,672) | (16,013) | (5,945) | (135,231) | (13,259) | (148,490) |
| Segment profit for the period | 29,853 | 31,029 | 31,194 | (2,955) | 89,121 | 5,524 | 94,645 |
| Segment assets | 4,393,665 | 3,635,265 | 2,903,219 | 296,557 | 11,228,706 | 1,657,657 | 12,886,363 |
| Segment liabilities | 3,201,032 | 4,508,811 | 1,408,356 | 247,644 | 9,365,843 | 1,466,441 | 10,832,284 |

| 30 June 2020 (unaudited) | <i>Corporate banking</i> RO '000 | <i>Consumer banking</i> RO '000 | <i>Wholesale banking</i> RO '000 | <i>International banking*</i> RO '000 | <i>Subtotal</i> RO '000 | <i>Islamic banking</i> RO '000 | <i>Total</i> RO '000 |
|--------------------------------------|---|--|---|--|----------------------------|---------------------------------------|-------------------------|
| Segment revenue | | | | | | | |
| Net interest income | 59,170 | 68,058 | 17,672 | 2,479 | 147,379 | - | 147,379 |
| Net income from Islamic financing | - | - | - | - | - | 13,154 | 13,154 |
| Commission, fees and other income | 9,927 | 29,408 | 19,067 | 4,504 | 62,906 | 1,784 | 64,690 |
| Operating income | 69,097 | 97,466 | 36,739 | 6,983 | 210,285 | 14,938 | 225,223 |
| Segment costs | | | | | | | |
| Operating expenses | (16,383) | (58,656) | (9,132) | (3,585) | (87,756) | (6,276) | (94,032) |
| Impairment (net) | (18,157) | (10,556) | (5,357) | (10,200) | (44,270) | (3,920) | (48,190) |
| Tax expense | (5,153) | (4,214) | (3,318) | - | (12,685) | (753) | (13,438) |
| | (39,693) | (73,426) | (17,807) | (13,785) | (144,711) | (10,949) | (155,660) |
| Segment profit for the period | 29,404 | 24,040 | 18,932 | (6,802) | 65,574 | 3,989 | 69,563 |
| Segment assets | 4,480,045 | 3,365,854 | 2,684,992 | 454,538 | 10,985,429 | 1,474,042 | 12,459,471 |
| Segment liabilities | 3,667,547 | 4,377,694 | 774,674 | 398,465 | 9,218,380 | 1,292,995 | 10,511,375 |

Note: * International banking includes overseas operations and cost allocations from Oman operations

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
21. ASSET LIABILITY MATURITY

The asset and liability maturity profile was as follows:

| | <i>Unaudited</i> <i>30-Jun-2021</i> <i>RO' 000</i> | <i>Audited</i> <i>31-Dec-2020</i> <i>RO' 000</i> | <i>Unaudited</i> <i>30-Jun-2020</i> <i>RO' 000</i> |
|-------------------------------|--|--|--|
| ASSETS | | | |
| On demand or within 1 month | 2,509,409 | 2,415,673 | 2,737,924 |
| 1 to 3 months | 1,156,337 | 1,154,523 | 1,237,209 |
| 4 to 12 months | 1,314,695 | 1,084,746 | 1,150,846 |
| 1 to 5 years | 2,952,702 | 3,073,828 | 2,755,617 |
| More than 5 years | 4,953,220 | 4,724,995 | 4,577,875 |
| | 12,886,363 | 12,453,765 | 12,459,471 |
| LIABILITIES AND EQUITY | | | |
| On demand or within 1 month | 1,502,720 | 1,323,846 | 1,272,649 |
| 1 to 3 months | 1,014,025 | 1,026,195 | 913,019 |
| 4 to 12 months | 2,546,368 | 2,453,678 | 2,427,431 |
| 1 to 5 years | 4,194,757 | 4,025,321 | 4,334,698 |
| More than 5 years | 3,628,493 | 3,624,725 | 3,511,674 |
| | 12,886,363 | 12,453,765 | 12,459,471 |
| MISMATCH | | | |
| On demand or within 1 month | 1,006,689 | 1,091,827 | 1,465,275 |
| 1 to 3 months | 142,312 | 128,328 | 324,190 |
| 4 to 12 months | (1,231,673) | (1,368,932) | (1,276,585) |
| 1 to 5 years | (1,242,055) | (951,493) | (1,579,081) |
| More than 5 years | 1,324,727 | 1,100,270 | 1,066,201 |
| | - | - | - |

Mismatch represents difference between assets and liabilities for each maturity band.

22. CAPITAL ADEQUACY

The following table sets out the capital adequacy position of the Group as per Basel III regulatory requirements

| | <i>Unaudited</i> <i>30-Jun-2021</i> <i>RO' 000</i> | <i>Audited</i> <i>31-Dec-2020</i> <i>RO' 000</i> | <i>Unaudited</i> <i>30-Jun-2020</i> <i>RO' 000</i> |
|--|--|--|--|
| Common Equity Tier I capital | 1,765,240 | 1,778,717 | 1,699,323 |
| Perpetual Tier I capital | 130,000 | 130,000 | 130,000 |
| Tier I capital | 1,895,240 | 1,908,717 | 1,829,323 |
| Tier II capital | 109,954 | 100,092 | 99,252 |
| Total regulatory capital | 2,005,194 | 2,008,809 | 1,928,575 |
| Total risk weighted assets | 9,869,988 | 9,669,846 | 9,759,477 |
| Of which: Credit risk weighted assets | 8,876,612 | 8,629,906 | 8,769,824 |
| Of which: Market risk weighted assets | 134,310 | 180,874 | 152,874 |
| Of which: Operational risk weighted assets | 859,066 | 859,066 | 836,779 |
| Capital ratios : | | | |
| Common Equity Tier 1 | 17.88% | 18.39% | 17.41% |
| Tier 1 | 19.20% | 19.74% | 18.74% |
| Total capital | 20.32% | 20.77% | 19.76% |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
22. CAPITAL ADEQUACY (continued)

The following table sets out the capital adequacy position of the Group as per Basel II guidelines issued by Central Bank of Oman for monitoring purposes:

| | <i>Unaudited</i> 30-Jun-2021 RO' 000 | <i>Audited</i> 31-Dec-2020 RO' 000 | <i>Unaudited</i> 30-Jun-2020 RO' 000 |
|--|--|--|--|
| Tier I capital | 1,914,403 | 1,922,582 | 1,841,070 |
| Tier II capital | 90,791 | 86,227 | 92,741 |
| Total regulatory capital | 2,005,194 | 2,008,809 | 1,933,811 |
| Total risk weighted assets | 9,869,988 | 9,669,846 | 9,759,477 |
| Of which: Credit risk weighted assets | 8,876,612 | 8,629,906 | 8,769,824 |
| Of which: Market risk weighted assets | 134,310 | 180,874 | 152,874 |
| Of which: Operational risk weighted assets | 859,066 | 859,066 | 836,779 |
| Capital ratios : | | | |
| Tier 1 | 19.40% | 19.88% | 18.86% |
| Total capital | 20.32% | 20.77% | 19.81% |

23. LIQUIDITY

The following table sets out the Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) of the Group:

| | <i>Unaudited</i> 30-Jun-2021 RO' 000 | <i>Audited</i> 31-Dec-2020 RO' 000 | <i>Unaudited</i> 30-Jun-2020 RO' 000 |
|------|--|--|--|
| LCR | 242% | 228% | 385% |
| NSFR | 120% | 118% | 125% |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
24. LEVERAGE RATIO

Under its Basel III guidelines, Basel Committee for Banking Supervision (BCBS) introduced a non-risk sensitive Leverage Ratio to address excessive build-up of on and off-balance sheet exposures, which was the root cause of the Financial/Credit crisis of 2008. The ratio is calculated by dividing the Tier 1 capital of the bank by the Bank's total assets (sum of all on and off-balance sheet assets). Being a DSIB the Bank is required to maintain a higher Leverage ratio of 5% considering the systemic importance.

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure as at the reporting dates:

| | <i>Unaudited</i> 30-Jun-2021 RO' 000 | <i>Audited</i> 31-Dec-2020 RO' 000 | <i>Unaudited</i> 30-Jun-2020 RO' 000 |
|--|--|--|--|
| 1 Total consolidated assets as per published financial statements | 12,886,363 | 12,453,765 | 12,459,471 |
| 2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | (38,325) | (27,728) | (23,493) |
| 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 | 71,872 | 76,540 | 114,027 |
| 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) | 1,338,207 | 1,333,041 | 1,430,353 |
| 7 Other adjustments | (6,775) | (6,428) | (8,270) |
| 8 Leverage ratio exposure | 14,251,342 | 13,829,190 | 13,972,088 |

Table 2: Leverage ratio common disclosure template

| | <i>Unaudited</i> 30-Jun-2021 RO' 000 | <i>Audited</i> 31-Dec-2020 RO' 000 | <i>Unaudited</i> 30-Jun-2020 RO' 000 |
|--|--|--|--|
| 1 On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 12,886,363 | 12,453,765 | 12,459,471 |
| 2 (Asset amounts deducted in determining Basel III Tier 1 capital) | (45,100) | (34,156) | (31,763) |
| 3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2) | 12,841,263 | 12,419,609 | 12,427,708 |
| Derivative Exposures | | | |
| 4 Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin) | 30,911 | 35,513 | 49,093 |
| 5 Add-on amounts for PFE associated with all derivatives transactions | 40,961 | 41,027 | 64,934 |
| 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) | 71,872 | 76,540 | 114,027 |
| 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 | 2,442,529 | 2,552,122 | 2,757,314 |
| 18 (Adjustments for conversion to credit equivalent amounts) | (1,104,322) | (1,219,081) | (1,326,961) |
| 19 Off-balance sheet items (sum of lines 17 and 18) | 1,338,207 | 1,333,041 | 1,430,353 |
| Capital and total exposures | | | |
| 20 Tier 1 capital | 1,895,240 | 1,908,717 | 1,829,323 |
| 21 Total exposures (sum of lines 3, 11, 16 and 19) | 14,251,342 | 13,829,190 | 13,972,088 |
| Leverage Ratio | | | |
| 22 Basel III leverage ratio (%) | 13.3% | 13.8% | 13.1% |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
25. CREDIT QUALITY ANALYSIS
25.1 Financial instruments by stages

The following table discloses the stage-wise gross exposure, impairment and net exposure of only those financial assets that are tested for impairment under IFRS 9:

RO'000

| 30 June 2021 | Stage 1 | Stage 2 | Stage 3 | Total |
|--|-------------------|------------------|----------------|-------------------|
| Gross exposure | | | | |
| Central Bank balances | 187,653 | - | - | 187,653 |
| Due from Banks | 758,032 | 20,448 | - | 778,480 |
| Loans and advances / Islamic financing receivables | 7,419,084 | 1,927,394 | 340,473 | 9,686,951 |
| Investment Securities at FVOCI | 57,100 | 6,952 | - | 64,052 |
| Investment Securities at amortized Cost | 1,567,872 | 11,947 | - | 1,579,819 |
| Total funded gross exposure | 9,989,741 | 1,966,741 | 340,473 | 12,296,955 |
| Financial guarantee contracts | 1,207,421 | 579,137 | 32,840 | 1,819,398 |
| Acceptances | 101,633 | 51,031 | 50 | 152,714 |
| Loan Commitment/Unutilised limits | 1,649,748 | 489,283 | - | 2,139,031 |
| Total non-funded gross exposure | 2,958,802 | 1,119,451 | 32,890 | 4,111,143 |
| Total gross exposure | 12,948,543 | 3,086,192 | 373,363 | 16,408,098 |
| Impairment | | | | |
| Central Bank balances | - | - | - | - |
| Due from Banks | 1,871 | 1,820 | - | 3,691 |
| Loans and advances / Islamic financing receivables | 26,752 | 147,682 | 274,653 | 449,087 |
| Investment Securities at FVOCI | 258 | 2,318 | - | 2,576 |
| Investment Securities at amortized Cost | 2,639 | 796 | - | 3,435 |
| Total funded impairment | 31,520 | 152,616 | 274,653 | 458,789 |
| Financial guarantee contracts | 2,527 | 8,076 | 26,541 | 37,144 |
| Acceptances | 66 | 114 | 46 | 226 |
| Loan Commitment/Unutilised limits | 5,659 | 3,979 | - | 9,638 |
| Total non-funded impairment | 8,252 | 12,169 | 26,587 | 47,008 |
| Total impairment | 39,772 | 164,785 | 301,240 | 505,797 |
| Net exposure | | | | |
| Central Bank balances | 187,653 | - | - | 187,653 |
| Due from Banks | 756,161 | 18,628 | - | 774,789 |
| Loans and advances / Islamic financing receivables | 7,392,332 | 1,779,712 | 65,820 | 9,237,864 |
| Investment Securities at FVOCI | 56,842 | 4,634 | - | 61,476 |
| Investment Securities at amortized Cost | 1,565,233 | 11,151 | - | 1,576,384 |
| Total funded net exposure | 9,958,221 | 1,814,125 | 65,820 | 11,838,166 |
| Financial guarantee contracts | 1,204,894 | 571,061 | 6,299 | 1,782,254 |
| Acceptances | 101,567 | 50,917 | 4 | 152,488 |
| Loan Commitment/Unutilised limits | 1,644,089 | 485,304 | - | 2,129,393 |
| Total net non-funded exposure | 2,950,550 | 1,107,282 | 6,303 | 4,064,135 |
| Total net exposure | 12,908,771 | 2,921,407 | 72,123 | 15,902,301 |

Stage 1: 78.9% of gross exposure in scope for IFRS 9 is in Stage 1 and has not experienced a significant increase in credit risk since origination.

Stage 2: 18.8% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets are the key driver of increase in impairment allowances under IFRS9.

Stage 3: 2.3% of gross exposure is in Stage 3 which is credit impaired including defaulted assets and some forbearance assets.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
25. CREDIT QUALITY ANALYSIS (continued)
25.1 Financial instruments by stages

The following table discloses the stage-wise gross exposure, impairment and net exposure of only those financial assets that are tested for impairment under IFRS 9:

RO'000

| 31-Dec-20 | Stage 1 | Stage 2 | Stage 3 | Total |
|--|-------------------|------------------|----------------|-------------------|
| Gross exposure | | | | |
| Central Bank balances | 167,005 | - | - | 167,005 |
| Due from Banks | 575,695 | 1,587 | - | 577,282 |
| Loans and advances / Islamic financing receivables | 7,222,932 | 1,817,979 | 337,822 | 9,378,733 |
| Investment Securities at FVOCI | 54,177 | 7,813 | - | 61,990 |
| Investment Securities at amortized Cost | 1,688,876 | - | - | 1,688,876 |
| Total funded gross exposure | 9,708,685 | 1,827,379 | 337,822 | 11,873,886 |
| Financial guarantee contracts | 1,208,844 | 584,374 | 72,929 | 1,866,147 |
| Acceptances | 70,859 | 72,827 | 50 | 143,736 |
| Loan Commitment/Unutilised limits | 1,769,745 | 495,840 | - | 2,265,585 |
| Total non-funded gross exposure | 3,049,448 | 1,153,041 | 72,979 | 4,275,468 |
| Total gross exposure | 12,758,133 | 2,980,420 | 410,801 | 16,149,354 |
| Impairment | | | | |
| Central Bank balances | - | - | - | - |
| Due from Banks | 979 | 1,517 | - | 2,496 |
| Loans and advances / Islamic financing receivables | 19,538 | 111,777 | 264,763 | 396,078 |
| Investment Securities at FVOCI | 137 | 2,737 | - | 2,874 |
| Investment Securities at amortized Cost | 859 | - | - | 859 |
| Total funded impairment | 21,513 | 116,031 | 264,763 | 402,307 |
| Financial guarantee contracts | 1,930 | 13,176 | 48,501 | 63,607 |
| Acceptances | 53 | 101 | 24 | 178 |
| Loan Commitment/Unutilised limits | 4,192 | 4,807 | - | 8,999 |
| Total non-funded impairment | 6,175 | 18,084 | 48,525 | 72,784 |
| Total impairment | 27,688 | 134,115 | 313,288 | 475,091 |
| Net exposure | | | | |
| Central Bank balances | 167,005 | - | - | 167,005 |
| Due from Banks | 574,716 | 70 | - | 574,786 |
| Loans and advances / Islamic financing receivables | 7,203,394 | 1,706,202 | 73,059 | 8,982,655 |
| Investment Securities at FVOCI | 54,040 | 5,076 | - | 59,116 |
| Investment Securities at amortized Cost | 1,688,017 | - | - | 1,688,017 |
| Total funded net exposure | 9,687,172 | 1,711,348 | 73,059 | 11,471,579 |
| Financial guarantee contracts | 1,206,914 | 571,198 | 24,428 | 1,802,540 |
| Acceptances | 70,806 | 72,726 | 26 | 143,558 |
| Loan Commitment/Unutilised limits | 1,765,553 | 491,033 | - | 2,256,586 |
| Total net non-funded exposure | 3,043,273 | 1,134,957 | 24,454 | 4,202,684 |
| Total net exposure | 12,730,445 | 2,846,305 | 97,513 | 15,674,263 |

Stage 1: 79% of gross exposure in scope for IFRS 9 is in Stage 1 and has not experienced a significant increase in credit risk since origination.

Stage 2: 18.5% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets are the key driver of increase in impairment allowances under IFRS9.

Stage 3: 2.5% of gross exposure is in Stage 3 which is credit impaired including defaulted assets and some forbearance assets.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
25. CREDIT QUALITY ANALYSIS (continued)
25.2 COMPARISON OF IFRS 9 WITH CENTRAL BANK OF OMAN (CBO) NORMS

The following tables are as per the requirements of CBO circular BM 1149:

a. Impairment charge and provisions held

RO '000

| <i>As at 30 June 2021 (Unaudited)</i> | <i>As per CBO norms</i> | <i>As per IFRS 9</i> | <i>Difference</i> |
|---|-------------------------|----------------------|-------------------|
| Impairment loss charged to statement of comprehensive income (net of recoveries)* | 35,328 | 35,328 | - |
| Provisions required as per CBO norms / held as per IFRS 9 * | 438,227 | 505,797 | (67,570) |
| Gross NPL ratio ** | 3.51% | 3.51% | - |
| Net NPL ratio ** | 0.42% | 0.42% | 0.00% |

* Note: Impairment loss and provisions held above includes unallocated provision created by the bank

** NPL ratios are calculated on the basis of funded non performing loans and funded exposures

b. Comparison of provision held as per IFRS 9 and required as per CBO norms

RO '000

| <i>Asset classification as per CBO norms</i> | <i>Asset classification as per IFRS 9</i> | <i>Gross amount</i> | <i>Provision as per CBO norms</i> | <i>Reserve Interest as per CBO norms</i> | <i>Provision as per IFRS 9</i> | <i>Difference</i> | <i>Net carrying amount</i> | <i>Interest recognised as per IFRS 9</i> |
|--|---|---------------------|-----------------------------------|--|--------------------------------|-------------------|----------------------------|--|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) = (4)+(5)-(6) | (8) = (3)-(6) | (9) |
| Standard | Stage 1 | 8,177,117 | 104,050 | - | 28,622 | 75,428 | 8,148,495 | - |
| | Stage 2 | 1,101,768 | 16,100 | - | 90,371 | (74,271) | 1,011,397 | - |
| | Stage 3 | - | - | - | - | - | - | - |
| | Sub total | 9,278,885 | 120,150 | - | 118,993 | 1,157 | 9,159,892 | - |
| Special Mention | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | 846,074 | 17,143 | 5 | 59,917 | (42,769) | 786,157 | - |
| | Stage 3 | - | - | - | - | - | - | - |
| | Sub total | 846,074 | 17,143 | 5 | 59,917 | (42,769) | 786,157 | - |
| Substandard | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 32,488 | 7,530 | 468 | 7,998 | - | 24,490 | - |
| | Sub total | 32,488 | 7,530 | 468 | 7,998 | - | 24,490 | - |
| Doubtful | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 29,047 | 14,493 | 740 | 15,544 | (311) | 13,503 | - |
| | Sub total | 29,047 | 14,493 | 740 | 15,544 | (311) | 13,503 | - |
| Loss | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 311,828 | 238,030 | 39,668 | 277,698 | - | 34,130 | - |
| | Sub total | 311,828 | 238,030 | 39,668 | 277,698 | - | 34,130 | - |
| Other items not covered under CBO circular BM 977 and related instructions | Stage 1 | 4,771,426 | - | - | 11,150 | (11,150) | 4,760,276 | - |
| | Stage 2 | 1,138,350 | - | - | 14,497 | (14,497) | 1,123,853 | - |
| | Stage 3 | - | - | - | - | - | - | - |
| | Sub total | 5,909,776 | - | - | 25,647 | (25,647) | 5,884,129 | - |
| Total | Stage 1 | 12,948,543 | 104,050 | - | 39,772 | 64,278 | 12,908,771 | - |
| | Stage 2 | 3,086,192 | 33,243 | 5 | 164,785 | (131,537) | 2,921,407 | - |
| | Stage 3 | 373,363 | 260,053 | 40,876 | 301,240 | (311) | 72,123 | - |
| | Total | 16,408,098 | 397,346 | 40,881 | 505,797 | (67,570) | 15,902,301 | - |

c. Restructured loans

RO '000

| <i>Asset classification as per CBO norms</i> | <i>Asset classification as per IFRS 9</i> | <i>Gross amount</i> | <i>Provision as per CBO norms</i> | <i>Reserve Interest as per CBO norms</i> | <i>Provision as per IFRS 9</i> | <i>Difference</i> | <i>Net carrying amount</i> | <i>Interest recognised as per IFRS 9</i> |
|--|---|---------------------|-----------------------------------|--|--------------------------------|-------------------|----------------------------|--|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) = (4)+(5)-(6) | (8) = (3)-(6) | (9) |
| Classified as performing | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | 254,565 | 5,108 | - | 38,911 | (33,803) | 215,654 | - |
| | Stage 3 | - | - | - | - | - | - | - |
| | Sub total | 254,565 | 5,108 | - | 38,911 | (33,803) | 215,654 | - |
| Classified as non-performing | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 85,573 | 64,117 | 7,226 | 71,654 | (311) | 13,919 | - |
| | Sub total | 85,573 | 64,117 | 7,226 | 71,654 | (311) | 13,919 | - |
| Total | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | 254,565 | 5,108 | - | 38,911 | (33,803) | 215,654 | - |
| | Stage 3 | 85,573 | 64,117 | 7,226 | 71,654 | (311) | 13,919 | - |
| | Total | 340,138 | 69,225 | 7,226 | 110,565 | (34,114) | 229,573 | - |

**NOTES TO THE INTERIM NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
25. CREDIT QUALITY ANALYSIS (continued)
25.2 COMPARISON OF IFRS 9 WITH CENTRAL BANK OF OMAN (CBO) NORMS

The following tables are as per the requirements of CBO circular BM 1149:

a. Impairment charge and provisions held

RO '000

| <i>As at 31 December 2020 (Audited)</i> | <i>As per CBO norms</i> | <i>As per IFRS 9</i> | <i>Difference</i> |
|---|-------------------------|----------------------|-------------------|
| Impairment loss charged to statement of comprehensive income (net of recoveries)* | 81,038 | 81,038 | - |
| Provisions required as per CBO norms / held as per IFRS 9 * | 446,435 | 475,091 | (28,656) |
| Gross NPL ratio ** | 3.62% | 3.62% | - |
| Net NPL ratio ** | 0.81% | 0.81% | 0.00% |

* Note: Impairment loss and provisions held above includes unallocated provision created by the Group

** NPL ratios are calculated on the basis of funded non performing loans and funded exposures

b. Comparison of provision held as per IFRS 9 and required as per CBO norms

RO '000

| <i>Asset classification as per CBO norms</i> | <i>Asset classification as per IFRS 9</i> | <i>Gross amount</i> | <i>Provision as per CBO norms</i> | <i>Reserve Interest as per CBO norms</i> | <i>Provision as per IFRS 9</i> | <i>Difference</i> | <i>Net carrying amount</i> | <i>Interest recognised as per IFRS 9</i> |
|--|---|---------------------|-----------------------------------|--|--------------------------------|-------------------|----------------------------|--|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) = (4)+(5)-(6) | (8) = (3)-(6) | (9) |
| Standard | Stage 1 | 7,964,731 | 109,486 | - | 20,519 | 88,967 | 7,944,212 | - |
| | Stage 2 | 1,029,737 | 10,454 | - | 71,369 | (60,915) | 958,368 | - |
| | Stage 3 | - | - | - | - | - | - | - |
| | Sub total | 8,994,468 | 119,940 | - | 91,888 | 28,052 | 8,902,580 | - |
| Special Mention | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | 789,830 | 13,207 | - | 41,752 | (28,545) | 748,078 | - |
| | Stage 3 | - | - | - | - | - | - | - |
| | Sub total | 789,830 | 13,207 | - | 41,752 | (28,545) | 748,078 | - |
| Substandard | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 28,693 | 7,053 | 566 | 7,619 | - | 21,074 | - |
| | Sub total | 28,693 | 7,053 | 566 | 7,619 | - | 21,074 | - |
| Doubtful | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 41,125 | 19,288 | 1,373 | 20,661 | - | 20,464 | - |
| | Sub total | 41,125 | 19,288 | 1,373 | 20,661 | - | 20,464 | - |
| Loss | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 340,983 | 247,228 | 37,780 | 285,008 | - | 55,975 | - |
| | Sub total | 340,983 | 247,228 | 37,780 | 285,008 | - | 55,975 | - |
| Other items not covered under CBO circular BM 977 and related instructions | Stage 1 | 4,793,402 | - | - | 7,169 | (7,169) | 4,786,233 | - |
| | Stage 2 | 1,160,853 | - | - | 20,994 | (20,994) | 1,139,859 | - |
| | Stage 3 | - | - | - | - | - | - | - |
| | Sub total | 5,954,255 | - | - | 28,163 | (28,163) | 5,926,092 | - |
| Total | Stage 1 | 12,758,133 | 109,486 | - | 27,688 | 81,798 | 12,730,445 | - |
| | Stage 2 | 2,980,420 | 23,661 | - | 134,115 | (110,454) | 2,846,305 | - |
| | Stage 3 | 410,801 | 273,569 | 39,719 | 313,288 | - | 97,513 | - |
| | Total | 16,149,354 | 406,716 | 39,719 | 475,091 | (28,656) | 15,674,263 | - |

c. Restructured loans

| <i>Asset classification as per CBO norms</i> | <i>Asset classification as per IFRS 9</i> | <i>Gross amount</i> | <i>Provision as per CBO norms</i> | <i>Reserve Interest as per CBO norms</i> | <i>Provision as per IFRS 9</i> | <i>Difference</i> | <i>Net carrying amount</i> | <i>Interest recognised as per IFRS 9</i> |
|--|---|---------------------|-----------------------------------|--|--------------------------------|-------------------|----------------------------|--|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) = (4)+(5)-(6) | (8) = (3)-(6) | (9) |
| Classified as performing | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | 253,097 | 5,106 | - | 25,223 | (20,117) | 227,874 | - |
| | Stage 3 | - | - | - | - | - | - | - |
| | Sub total | 253,097 | 5,106 | - | 25,223 | (20,117) | 227,874 | - |
| Classified as non-performing | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 87,668 | 64,178 | 6,829 | 71,007 | - | 16,661 | - |
| | Sub total | 87,668 | 64,178 | 6,829 | 71,007 | - | 16,661 | - |
| Total | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | 253,097 | 5,106 | - | 25,223 | (20,117) | 227,874 | - |
| | Stage 3 | 87,668 | 64,178 | 6,829 | 71,007 | - | 16,661 | - |
| | Total | 340,765 | 69,284 | 6,829 | 96,230 | (20,117) | 244,535 | - |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**

26. FAIR VALUE INFORMATION

Based on the valuation methodology outlined below, the fair values of all on and off-balance sheet financial instruments at reporting dates are considered by the Board and Management not to be materially different to their book values:

| As of 30 June 2021 | Designated as at FVTPL RO' 000 | Designated as at FVOCI RO' 000 | Amortised cost RO' 000 | Total carrying value RO' 000 | Fair value RO' 000 | Level |
|--|--------------------------------------|--------------------------------------|------------------------------|---------------------------------------|-----------------------|-------|
| Cash and balances with Central Banks | - | - | 843,368 | 843,368 | 843,368 | 3 |
| Due from banks | - | 41 | 774,748 | 774,789 | 780,276 | 2,3 |
| Loans and advances and Islamic financing receivables | - | - | 9,237,864 | 9,237,864 | 9,378,954 | 3 |
| Investment securities | 17,525 | 138,462 | 1,576,384 | 1,732,371 | 1,769,931 | 1,2,3 |
| Positive fair value of derivatives | 30,109 | - | - | 30,109 | 30,109 | 2 |
| | <u>47,634</u> | <u>138,503</u> | <u>12,432,364</u> | <u>12,618,501</u> | <u>12,802,638</u> | |
| Deposits from banks | - | - | 1,185,594 | 1,185,594 | 1,187,298 | 3 |
| Customers' deposits and Islamic customer deposits | - | - | 8,669,704 | 8,669,704 | 8,702,389 | 3 |
| Sukuk | - | - | 90,594 | 90,594 | 90,594 | 1 |
| Euro medium term notes | - | - | 390,453 | 390,453 | 438,095 | 1 |
| Subordinated liabilities | - | - | 6,600 | 6,600 | 6,600 | 3 |
| Negative fair value of derivatives | 22,037 | - | - | 22,037 | 22,037 | 2 |
| | <u>22,037</u> | <u>-</u> | <u>10,342,945</u> | <u>10,364,982</u> | <u>10,447,013</u> | |

| As of 31 December 2020 | Designated as at FVTPL RO' 000 | Designated as at FVOCI RO' 000 | Amortised cost RO' 000 | Total carrying value RO' 000 | Fair value RO' 000 | Level |
|--|--------------------------------------|--------------------------------------|------------------------------|---------------------------------------|-----------------------|-------|
| Cash and balances with Central Banks | - | - | 656,898 | 656,898 | 656,898 | 3 |
| Due from banks | - | 9,625 | 565,161 | 574,786 | 579,753 | 2,3 |
| Loans and advances and Islamic financing receivables | - | - | 8,982,655 | 8,982,655 | 9,069,385 | 3 |
| Investment securities | 20,765 | 138,567 | 1,688,017 | 1,847,349 | 1,873,486 | 1,2,3 |
| Positive fair value of derivatives | 35,429 | - | - | 35,429 | 35,429 | 2 |
| | <u>56,194</u> | <u>148,192</u> | <u>11,892,731</u> | <u>12,097,117</u> | <u>12,214,951</u> | |
| Deposits from banks | - | - | 939,621 | 939,621 | 940,210 | 3 |
| Customers' deposits and Islamic customer deposits | - | - | 8,458,505 | 8,458,505 | 8,408,860 | 3 |
| Sukuk | - | - | 90,600 | 90,600 | 90,027 | 1 |
| Euro medium term notes | - | - | 390,570 | 390,570 | 404,743 | 1 |
| Subordinated liabilities | - | - | 13,198 | 13,198 | 13,090 | 3 |
| Negative fair value of derivatives | 32,001 | - | - | 32,001 | 32,001 | 2 |
| | <u>32,001</u> | <u>-</u> | <u>9,892,494</u> | <u>9,924,495</u> | <u>9,888,931</u> | |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**
26. FAIR VALUE INFORMATION (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at the reporting dates:

| <i>As of 30 June 2021</i> | <i>Level 1 RO'000</i> | <i>Level 2 RO'000</i> | <i>Level 3 RO'000</i> | <i>Total RO'000</i> |
|-------------------------------|---------------------------|---------------------------|---------------------------|-------------------------|
| Assets | | | | |
| Derivatives | - | 30,109 | - | 30,109 |
| FVOCI Due from banks | - | 22,371 | - | 22,371 |
| FVTPL Equity | 4,698 | - | 12,827 | 17,525 |
| FVOCI Equity | 73,238 | - | 3,748 | 76,986 |
| FVOCI Debt | 58,972 | - | 2,504 | 61,476 |
| Total Assets | 136,908 | 52,480 | 19,079 | 208,467 |
| Liabilities | | | | |
| Derivatives | - | 22,037 | - | 22,037 |
| As of 31 December 2020 | | | | |
| | <i>Level 1 RO'000</i> | <i>Level 2 RO'000</i> | <i>Level 3 RO'000</i> | <i>Total RO'000</i> |
| Assets | | | | |
| Derivatives | - | 35,429 | - | 35,429 |
| FVOCI Due from banks | - | 9,625 | - | 9,625 |
| FVTPL Equity | 10,266 | - | 10,499 | 20,765 |
| FVOCI Equity | 77,194 | - | 2,257 | 79,451 |
| FVOCI Debt | 56,176 | - | 2,940 | 59,116 |
| Total Assets | 143,636 | 45,054 | 15,696 | 204,386 |
| Liabilities | | | | |
| Derivatives | - | 32,001 | - | 32,001 |

The following table demonstrate the movement of the Group's level 3 investments:

| <i>As of 30 June 2021</i> | <i>FVOCI Equity RO'000</i> | <i>FVOCI Debt RO'000</i> | <i>FVTPL Equity RO'000</i> | <i>Total RO'000</i> |
|--|------------------------------------|----------------------------------|------------------------------------|-------------------------|
| At 1 January 2021 | 2,257 | 2,940 | 10,499 | 15,696 |
| Realised gain on sale | - | - | 88 | 88 |
| Gain (loss) from change in fair value | (618) | (565) | 694 | (489) |
| Additions | 2,108 | - | 2,033 | 4,141 |
| Disposals and redemption | - | - | (488) | (488) |
| Accrued interest | - | 47 | - | 47 |
| (Impairment) / Reversal of impairment on investments | - | 82 | - | 82 |
| Exchange differences | 1 | - | 1 | 2 |
| | 3,748 | 2,504 | 12,827 | 19,079 |
| As of 31 December 2020 | | | | |
| | <i>FVOCI Equity RO'000</i> | <i>FVOCI Debt RO'000</i> | <i>FVTPL Equity RO'000</i> | <i>Total RO'000</i> |
| At 1 January 2020 | 3,527 | 4,369 | 8,794 | 16,690 |
| Realised gain on sale | - | - | 69 | 69 |
| Gain (loss) from change in fair value | (1,270) | 312 | (137) | (1,095) |
| Additions | - | - | 1,841 | 1,841 |
| Disposals and redemption | - | (109) | (68) | (177) |
| Accrued interest | - | 53 | - | 53 |
| Impairment on investments | - | (1,691) | - | (1,691) |
| Amortization | - | 6 | - | 6 |
| | 2,257 | 2,940 | 10,499 | 15,696 |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021**

26. FAIR VALUE INFORMATION (continued)

As of 30 June 2021, 46% (31 December 2020: 49%) of the level 3 equity securities were valued on the basis of fair valuation carried out in accordance with appropriate valuation techniques based on income approach (discounting of cash flows), market approach (using prices or other relevant information generated by market transactions of identical or similar entities), cost approach or a combination thereof. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, using the best information available in the circumstances. These might include banks own data and would consider all information about market participant assumptions that is reasonably available.

As of 30 June 2021, 54% (31 December 2020: 51%) of the level 3 equity securities were valued on the basis of latest available capital accounts statements of the investee companies received from independent fund managers as at 31 March 2021 or at a later date and adjusted for subsequent cash flows till 30 June 2021 or based on net asset values received from independent fund managers as at 31 March 2021 or at a later date.

The debt investments were valued on fair value basis. Valuation is based on Risk adjusted discount rate (yield) considering a reasonable range of estimates. A significant decrease in the credit quality would result in a lower fair value with significant increase in the spread above the risk-free rate and vice-versa. The Group holds adequate provisioning on the above investments as of the reporting date.

There are no transfers of securities between Level 1, 2 and 3 during the period. Further, there is no change in the techniques used for fair valuation of level 3 securities during the period.

27. Comparative figures

Certain corresponding figures for 2020 have been reclassified / regrouped in order to conform to the presentation for the current year. Such reclassifications / regroupings do not affect previously reported profit or equity.