BANK DHOFAR SAOG

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2021

Registered and principal place of business:

Bank Dhofar SAOG
Central Business District
P.O. Box 1507, Ruwi
Postal Code 112
Sultanate of Oman

BANK DHOFAR SAOG

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FOR THE YEAR ENDED 31 DECEMBER 2021

BANK DHOFAR S.A.O.G.

THE BOARD OF DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present Bank's financial statements for year ended 31 December 2021.

During the financial year 2021, the Government of Oman has taken several initiatives to stimulate the economy and to neutralize the repercussions of COVID-19. Consequent to the meticulous vaccination campaign and opening of commercial activities, Oman economy continues to display signs of gradual recovery. Oman's average oil price was US$ 61/b during the year 2021 which was 35% higher than budgeted oil price of US$ 45/b. As per preliminary results of 2021, Oman budget deficit was RO 1,223 million which was 72% lower than deficit of financial year 2020. In order to provide support to private sector, the government paid RO 1.2 billion during the year 2021. Oman's economic recovery was also corroborated by the credit rating agencies. During the year 2021, key credit rating agencies i.e. Standards & Poor's, Fitch and Moody's affirmed Oman's credit rating and revised outlook as B+(Positive), BB-(Stable), Ba3(Stable) respectively.

The Central Bank of Oman (CBO) has announced the final extension of loan deferments to affected borrowers till 31 December 2021. The Bank continued to play its role for the revival of economy by extending support to the customers by providing relief mandated by the CBO and beyond. The Bank is always driven by the customer centric approach and prioritize enhancing customer experience through digital and product innovation.

2021 Financial Overview

The key highlights of Bank's financials are summarized below

	31 December 2021	**31 December 2020**	**Growth**
	RO million	RO million	%
Net Interest Income and Income from Islamic Financing	**102.42**	107.64	-4.8%
Operating income	**126.45**	129.99	-2.7%
Operating expenses	**72.34**	65.08	11.2%
Expected credit losses	**24.65**	28.99	-15.0%
Net profit for the year	**25.12**	30.59	-17.9%
Total assets	**4,438.79**	4,257.02	4.3%
Net loans and Islamic financing	**3,346.22**	3,265.49	2.5%
Customer deposits	**2,975.64**	2,861.32	4.0%
Total equity	**698.52**	695.86	0.4%

The Bank reported net profit of RO 25.12 million for the year ended 31 December 2021 compared to RO 30.59 million for the comparative year which represents a decrease of 17.9%.

Bank's interest income on loans and Islamic financing receivables reached to RO 206.72 million compared to RO 205.25 million resulting year on year (YoY) growth of 0.71%. However, increase in interest expense surpassed growth in interest income and recorded YoY negative variance of 6.85%. Consequent to increase in interest expense, the net interest and financing income showed downward trend and stood at RO 102.42 million for the year ended 31 December 2021 compared to RO 107.64 million for the year 2020.
Non-funded income increased by 7.47% by reaching RO 24.03 million compared to RO 22.35 million for the year 2021 and 2020 respectively.

Total operating income stood at RO 126.45 million for the year ended December 2021 versus RO 129.99 million for the comparative period of 2020, showing decrease of -2.7%. Banks operating expenses for the year ended 31 December 2021 were higher than last year by 11.16% and stretched to RO 72.34 million compared to RO 65.08 million for the previous financial year. Due to lower operating income and higher costs, the Bank's cost to income ratio ascended to 57.21% as at 31 December 2021 compared to 50.06% for the last year.

Net loans and advances including Islamic financing, exhibited YoY incremental growth of 2.45% and reached to RO 3.35 billion as at 31 December 2021 from RO 3.27 billion at the 31 December 2020. Customer Deposits including Islamic deposits, on the other hand, witnessed higher growth and recorded YoY increase of 4.0%. In absolute terms, customer deposits grew to RO 2.98 billion as at 31 December 2021 compared to RO 2.86 billion as at end of comparative year.

Net Expected Credit Loss 'ECL' for the year 2021 is RO 24.65 million compared to 28.99 million for the year 2020, a decrease of RO 4.34 million. Gross NPL (Non-performing loans) increased to 5.11% as at 31 December 2021 from 4.53% as at 31 December 2020. Net NPL, net of interest reserve is 4.26% at 31 December 2020 compared to 3.81% at 31 December 2020; Net NPL, net of interest reserve and ECL is 1.91% as at 31 December 2021 compared to 1.81% at 31 December 2020.

The earnings per share (EPS) for year ended 31 December 2021 were RO 0.005 as compared to RO 0.007 for the corresponding previous year.

Maisarah Islamic Banking Services - Financial Performance Highlights

Maisarah Islamic Banking Services, the bank's Islamic Banking Window as at 31 December 2021, posted a profit before tax of RO 8.92 million compared to RO 6.51 million as at 31 December 2020, reflecting significant growth of 37.02% over last year.

Maisarah key financial metrics showed momentous growth during the year 2021. The gross income from Financing, Placement and Investment increased by 10.82% to RO 33.59 million as at 31 December 2021 from RO 30.31 million reported during the same period last year. The net financing, investment and Placement income (after cost of funds) as at 31 December 2021 increased by 19.52%, to RO 18.43 million as compared to RO 15.42 million reported at 31 December 2020. Non-Funded income decreased by 11.40% to RO 1.71 million as at 31 December 2021 from RO 1.93 million last year. Cost to income ratio continues to be at optimum level and stood at 43.64% as at 31 December 2021 compared to 43.29% during the same period last year.

Maisarah gross financing portfolio has grown to RO 501.26 million at 31 December 2021 from RO 483.56 million at 31 December 2020, thus registering a growth of 3.66% over last year. The Sukuk investment portfolio stood at RO 82.02 million as at 31 December 2021 compared to RO 82.07 million as at 31 December 2020.

The total customer deposits of Maisarah reached RO 437.02 million as at 31 December 2021, registering a steady growth of 17.08% compared to OMR 373.26 million at 31 December 2020. Maisarah total assets increased by 9.48% to OMR 677.14 million at 31 December 2021 from OMR 618.52 million at 31 December 2020.

Capital Adequacy

In terms of capital soundness, the Bank carries strong capital position of Core Equity Tier 1 Ratio (CET-1) of 12.89% as at 31 December 2021 (2020: 12.45%), Tier 1 Capital Ratio of 16.75% (2020: 16.27%) and total Capital Adequacy Ratio of 17.74% (2020: 17.70%), compared to Regulatory Minimum of 8.25%, 10.25% and 12.25% respectively.

Distributed & Proposed Dividends

Considering the market conditions and to preserve the capital through internally generated profits, the Board of Directors in their meeting held on 27 January 2022 proposed 2% cash dividend and nil bonus share issue distribution for the year ended 31 December 2021, subject to Regulatory and Shareholders approval.

The percentage of dividends distributed to the Shareholders in the last five years is as follows:

Year	2016	2017	2018	2019	2020
Cash Dividend	13.5%	12%	10%	3%	4%
Bonus Shares	7.5%	8%	7%	Nil	Nil

Corporate Social Responsibility and Sustainability

In support of the national efforts to contain the effects of the Tropical Cyclone Shaheen, Bank Dhofar contributed RO 500,000 to be distributed to impacted families. The Bank has also allocated RO 10 million as interest-free loans for affected customers and announced deferment of loan instalments for up to five months.

Within the same context, Bank Dhofar's and Maisarah's "Mujtamaie" volunteer team took part in the relief efforts in the North and South Al Batinah Governorates. The team members were distributed among various areas of North and South Al Batinah Governorates and helped in providing a number of services including hygiene and sanitation, distributing food supplies to the affected families, among other services.

In demonstration of its support to the community, Bank Dhofar sponsored "Ghansha" workshop, which was implemented by Omani Women's Association in collaboration with Seeb Wali's Office. The workshop aims to contribute to achieving economic empowerment for needy families.

As part of its continuous efforts to preserve the environment and reduce waste levels; the Bank invested in getting reusable bags with Bank's logo. The bags were distributed to all staff in branches and departments, existing and potential customers and local hypermarkets and stores. The initiative aimed to encourage the individuals to use these eco-friendly bags and reduce the use of plastic.

Additionally, Maisarah Islamic Banking Services sponsored the "Green Mosque" renewable energy program, which is the first of its kind in the Sultanate. The program, which reduces electricity consumption and operational costs, comes in line with the directives of Oman Vision 2040 to achieve around 30% of the Sultanate's energy needs from renewable sources. The program will also raise awareness among the society on the effectiveness of using renewable energy sources.

COVID 19 – Preventive Measures

To curtail the spread of the ongoing COVID19 pandemic, Bank Dhofar continued to apply several preventive measures, for its staff and customers. Bank's "Health is Our Priority" digital campaign, aims to fortify awareness among customers and the public on the preventive measures pertaining to the pandemic. Additionally, the campaign encourages customers to conduct their banking transactions through Bank's digital channels including i.e. Mobile Banking Application, Internet Banking, ATMs, and CDMs.

To safeguard its human capital, the Bank launched "Salamtak" campaign for its staff to promote healthy practices to ensure healthy work environment for all its employees. The campaign also aims to keep the staff updated with the any resolutions or decisions of Supreme Committee with regards to COVID19.

Awards & Accolades

The Bank's efforts in product development, innovative solutions and enhanced customer experience were widely recognized by various reputable local and international organizations. Despite all economic challenges posed by the unprecedented pandemic, the Bank has solidified its brand image during 2021. This can be corroborated by the fact that Bank Dhofar was announced most trusted brand by Oman Economic Review Magazine (OER). Moreover, the Bank was also proclaimed "Best Business and Corporate Bank – Oman" by Word Economic Magazine. Finance Derivative Magazine crowned the Bank with two awards i.e. Best Investment Bank and Best Commercial Bank respectively. Most recently, Asiamoney Middle East acknowledged Bank Dhofar as Best Bank for SMEs and Best Digital Bank in Oman banking sector.

In addition to above, the following key awards were accomplished by the Bank and those awards are testimony to the continued efforts put in by the Bank's enhanced focus on digitalization and innovation.

- Excellence in Customer Experience Award at the Oman Banking & Finance Awards 2021
- Excellence in Innovative Products & Solutions Award at the Oman Banking & Finance Awards 2021
- Best Mobile Banking Application - Sultanate of Oman 2021 by Finance Derivative Magazine Awards
- Channel innovation runner up award by Infosys Awards
- Bank Dhofar ranked among top 50 banks in the Middle East by Forbes – Middle East
- Most Innovative New Customer Service Initiative Award – Customer Engagement Hub by Global Business Outlook Awards
- BankDhofar ranked among top 50 banks in the Middle East by Forbes – Middle East
- Best Digital Bank -Sultanate of Oman by Asiamoney Middle East's Best Bank Awards 2021.

The Year Ahead (2022)

The aftershocks of economic and social challenges posed by unprecedented COVID-19 pandemic are still being felt. It is early to assume that threats from pandemic are over as new variants of COVID-19 keep on emerging from various parts of the world to peril the improving situation. The Central Bank of Oman (CBO), though stopped further deferment of loans but provided flexibility for the restructuring / rescheduling of credit facilities for the affected borrowers. The restructuring / rescheduling of credit facilities warrants additional expected credit losses and will have cascading effect on profitability of the Banking sector in time to come.

On the other hand, Oman 2022 State Budget envisioned continuation of ongoing economic recovery. The 2022 Budget assumes oil price of US$ 50 per barrel. The top priorities of the 2022 Budget include fiscal sustainability and economic diversification. The 2022 budgeted revenue is expected to surpass 2021 revenue by 3.3%. The budgeted 2022 deficit will be 1,550 million which represents 15% of total revenue and 5% of GDP.

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Board of Directors and the Executive Management. I convey my gratitude to the shareholders, Sharia Supervisory Board of Maisarah Islamic Banking Services, Management and Staff for their relentless efforts and contributions during the year 2021.

The Board of Directors also wishes to thank the Central Bank of Oman and the Capital Market Authority for their invariable guidance and support to the financial sector in Oman.

Finally, on behalf of the Board of Directors, employees and the management I would like to express our most sincere gratitude to His Majesty Sultan Haitham Bin Tariq Al Said for his distinguished leadership and pivotal support to the private sector.

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	2021 RO'000	2020* RO'000
Assets			
Cash and balances with Central Bank of Oman	*5*	**251,479**	208,836
Investment securities	*8*	**446,216**	457,817
Loans, advances and financing to banks	*6*	**125,098**	121,522
Loans, advances and financing to customers (conventional)	*7*	**2,855,580**	2,790,468
Islamic financing receivables	*7*	**490,643**	475,020
Other assets	*11*	**245,787**	176,574
Deferred tax assets	*24*	**3,420**	5,341
Property and equipment	*10*	**7,797**	9,641
Intangible assets	*9*	**12,766**	11,804
Total assets		**4,438,786**	4,257,023
Liabilities and equity			
Liabilities			
Due to banks	*12*	**460,889**	451,955
Deposits from customers (conventional)	*13*	**2,538,622**	2,488,053
Islamic customers deposits	*13*	**437,017**	373,262
Other liabilities	*14*	**256,960**	192,462
Tax Liabilities	*24 (e)*	**9,422**	17,804
Employee benefit obligations	*14 (a)*	**2,357**	2,623
Subordinated loans	*15*	**35,000**	35,000
Total liabilities		**3,740,267**	3,561,159
Equity			
Shareholders' equity			
Share capital	*16(a)*	**299,635**	299,635
Share premium	*17*	**95,656**	95,656
Legal reserve	*18(a)*	**64,538**	62,025
Special reserve	*18(d)*	**16,988**	17,488
Special reserve for restructured loans	*18(e)*	**1,281**	1,281
Special impairment reserve - net of tax	*18(f)*	**12,184**	12,184
Special revaluation reserve	*18(g)*	**(709)**	(709)
Subordinated loan reserve	*18(b)*	**28,000**	21,000
Investment revaluation reserve	*18(c)*	**(3,477)**	(2,370)
Retained earnings	*19*	**28,923**	34,174
Total equity attributable to the shareholders of the Bank		**543,019**	540,364
Perpetual Tier 1 capital securities	*16 (b)*	**155,500**	155,500
Total equity		**698,519**	695,864
Total liabilities and equity		**4,438,786**	4,257,023
Contingent liabilities excluding loan commitments	*28(a)*	**569,225**	661,491
Net assets per share (Rial Omani)	*20*	**0.181**	0.180

*Please refer to note 37 for changes to corresponding amounts.

The financial statements including notes and other explanatory information on pages 14 to 112 were approved and authorised for issue by the Board of Directors on ___ January 2022 and were signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

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STATEMENT OF COMPREHENSIVE INCOME
As at 31 December

	Notes	2021 RO'000	2020 RO'000
Interest income	21	**173,132**	174,944
Interest expense	22	**(90,373)**	(82,725)
Net interest income		**82,759**	92,219
Income from Islamic financing / Investments	21	**33,588**	30,310
Unrestricted investment account holders' share of profit and profit expense	22	**(13,924)**	(14,889)
Net income from Islamic financing and investment activities		**19,664**	15,421
Fees and commission income		**17,906**	16,493
Fees and commission expense		**(2,459)**	(2,904)
Net fees and commission income	29	**15,447**	13,589
Other operating income	22 (a)	**8,576**	8,764
Operating income		**126,446**	129,993
Staff and administrative costs	23	**(65,253)**	(58,410)
Depreciation and amortisation	9 & 10	**(7,087)**	(6,669)
Operating expenses		**(72,340)**	(65,079)
Expected credit losses on financial assets	7	**(24,651)**	(28,990)
Bad debts written-off		**-**	(1)
Profit before taxation		**29,455**	35,923
Income tax expense	24	**(4,332)**	(5,338)
Profit for the year		**25,123**	30,585
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Movement in fair value reserve (FVOCI equity instrument)	18(c)	**245**	(368)
Items that are or may be reclassified to profit or loss in subsequent periods:			
Movement in fair value reserve			
• FVOCI debt instruments	18(c)	**(1,352)**	(1,375)
Other comprehensive loss for the year		**(1,107)**	(1,743)
Total comprehensive income for the year		**24,016**	28,842
Earnings per share (basic and diluted) (Rial Omani)	25	**0.005**	0.007

The notes on pages 14 to 112 are an integral part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December

	Notes	**Share capital RO'000**	**Share premium RO'000**	**Legal reserve RO'000**	**Special reserve RO'000**	**Special reserve for restructured loan RO'000**	**Special impairment reserve – net of tax RO'000**	**Special revaluation reserve RO'000**	**Subordinated loans reserve RO'000**	**Investment revaluation reserve RO'000**	**Retained earnings RO'000**	**Total RO'000**	**Perpetual Tier 1 capital securities RO'000**	**Total equity RO'000**
Balance at 1 January 2021		**299,635**	**95,656**	**62,025**	**17,488**	**1,281**	**12,184**	**(709)**	**21,000**	**(2,370)**	**34,174**	**540,364**	**155,500**	**695,864**
Profit for the year		-	-	-	-	-	-	-	-	-	**25,123**	**25,123**	-	**25,123**
Other comprehensive income for the year:		-	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in fair value reserve														
• FVOCI equity instrument	*18(c)*	-	-	-	-	-	-	-	-	**245**	-	**245**	-	**245**
• FVOCI debt instruments	*18(c)*	-	-	-	-	-	-	-	-	**(1,352)**	-	**(1,352)**	-	**(1,352)**
Total comprehensive income for the year		-	-	-	-	-	-	-	-	**(1,107)**	**25,123**	**24,016**	-	**24,016**
		-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to special impairment reserve IFRS 9 (net of tax)	*18(f) & 7(d)*	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to legal reserve	*18(a)*	-	-	**2,513**	-	-	-	-	-	-	**(2,513)**	-	-	-
Transfer to subordinated loan reserve	*18(b)*	-	-	-	-	-	-	-	**7,000**	-	**(7,000)**	-	-	-
Transfer to Retained Earnings	*18(d)*	-	-	-	**(500)**	-	-	-	-	-	**500**	-	-	-
Perpetual Tier 1 capital securities:														
• Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	**(9,376)**	**(9,376)**	-	**(9,376)**
Transactions with shareholders recorded directly in equity														
Dividend paid	*35*	-	-	-	-	-	-	-	-	-	**(11,985)**	**(11,985)**	-	**(11,985)**
Balances as at 31 December 2021		**299,635**	**95,656**	**64,538**	**16,988**	**1,281**	**12,184**	**(709)**	**28,000**	**(3,477)**	**28,923**	**543,019**	**155,500**	**698,519**

The notes on pages 14 to 112 are an integral part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December

	Notes	**Share capital RO'000**	**Share premium RO'000**	**Legal reserve RO'000**	**Special reserve RO'000**	**Special reserve for restructured loan RO'000**	**Special impairment reserve – net of tax RO'000**	**Special revaluation reserve RO'000**	**Subordinated loans reserve RO'000**	**Investment revaluation reserve RO'000**	**Retained earnings RO'000**	**Total RO'000**	**Perpetual Tier 1 capital securities RO'000**	**Total equity RO'000**
Balance at 1 January 2020		299,635	95,656	58,966	18,488	1,281	4,654	(709)	42,875	(627)	10,436	530,655	155,500	686,155
Profit for the year														
Other comprehensive income for the year:		-	-	-	-	-	-	-	-	-	30,585	30,585	-	30,585
Net changes in fair value reserve														
• FVOCI equity instrument	*18(c)*	-	-	-	-	-	-	-	-	(368)	-	(368)	-	(368)
• FVOCI debt instruments	*18(c)*	-	-	-	-	-	-	-	-	(1,375)	-	(1,375)	-	(1,375)
Total comprehensive income for the year		-	-	-	-	-	-	-	-	(1,743)	30,585	28,842	-	28,842
Transfer to special impairment reserve IFRS 9 (net of tax)	*18(f) & 7(d)*	-	-	-	-	-	7,530	-	-	-	(7,530)	-	-	-
Transfer to legal reserve	*18(a)*	-	-	3,059	-	-	-	-	-	-	(3,059)	-	-	-
Transfer to subordinated loan reserve		-	-	-	-	-	-	-	7,000	-	(7,000)	-	-	-
Transfer to Retained Earnings	*18(b)*	-	-	-	-	-	-	-	(28,875)	-	28,875	-	-	-
Transfer to Retained Earnings	*18(d)*	-	-	-	(1,000)	-	-	-	-	-	1,000	-	-	-
Perpetual Tier 1 capital securities:														
• Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(10,144)	(10,144)	-	(10,144)
Transactions with equity holders recorded directly in equity														
Dividend paid	*35*	-	-	-	-	-	-	-	-	-	(8,989)	(8,989)	-	(8,989)
Balances as at 31 December 2020		299,635	95,656	62,025	17,488	1,281	12,184	(709)	21,000	(2,370)	34,174	540,364	155,500	695,864

The notes on pages 14 to 112 are an integral part of these financial statements.

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 RO'000	2020* RO'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before taxation		**29,455**	35,923
Adjustment for:			
Depreciation, amortisation and impairment	9 &10	**7,087**	7,066
Net impairment on financial asset and bad debts written-off	7	**24,651**	28,990
Dividend income	22(b)	**(126)**	(222)
End of service benefits provision for the year	14(a)	**471**	1,337
Revaluation loss		**13**	-
Gain on Sale of property and equipment		**(16)**	-
Interest expense on subordinated loans	22	**2,188**	2,479
Gain on sale of investments		**(2,071)**	(114)
Operating profit before operating assets and liabilities changes		**61,652**	**75,459**
Net increase/(decrease) in:			
Due to banks		**8,934**	(38,224)
Due from banks		**(22,239)**	311,273
Loans and advances and financing		**(105,079)**	(231,667)
Other assets		**(70,071)**	(84,999)
Customer deposits		**114,324**	(81,873)
Other liabilities		**65,753**	62,956
Cash generated from operations before tax and end of service benefits		**53,274**	**12,925**
Taxes paid	24	**(10,793)**	(3,202)
End of service benefits paid	14(a)	**(737)**	(426)
Net cash generated from operating activities		**41,744**	**9,297**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment and intangible assets		**(6,203)**	(9,017)
Dividends received from investment securities		**126**	222
Purchase of investments		**(86,185)**	(176,002)
Proceeds from sale/maturities of investments		**98,728**	95,182
Proceeds from sale of property and equipment		**16**	74
Net cash generated from /(used in) investing activities		**6,482**	**(89,541)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of subordinated loans		-	(28,875)
Dividend paid		**(11,985)**	(8,989)
Interest on Tier 1 perpetual bond		**(9,376)**	(10,144)
Interest expense on subordinated loans		**(2,188)**	(2,479)
Net cash used in financing activities		**(23,549)**	**(50,487)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**24,677**	**(130,731)**
Cash and cash equivalents at beginning of the year		**272,526**	403,257
Cash and cash equivalents at end of the year		**297,203**	**272,526**
Cash and cash equivalent comprises of:			
Cash and balances with Central Bank of Oman	5	**251,479**	**208,836**
Capital deposit with Central Bank of Oman	5	**(500)**	**(500)**
Due from banks with a short term maturity of 3 months or less		**46,224**	**64,190**
		297,203	**272,526**

Interest received was RO 203.56 million (2020: RO 181.92 million) and interest paid was RO 104.94 million (2020: RO 103.73 million). These are part of the operating cash flows of the Bank.

*Please refer to note 37 for changes to corresponding amounts.

The notes on pages 14 to 112 are an integral part of these financial statements.

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1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Dhofar SAOG (the "Bank") is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank's Islamic Banking Window, "Maisarah Islamic Banking services" has an allocated capital of RO 70 million (2020: RO 70 million) from the core paid up capital of the shareholders. The Bank has a primary listing of its ordinary shares on the Muscat Stock Exchange ("MSM"), and the Bank's Additional Tier I Perpetual Bonds are listed on the Euronext Dublin exchange (formerly known as the Irish Stock Exchange ('ISE")) and Muscat Stock Exchange ("MSM"). The Bank's principal place of business is its Head Office located at Central Business District ("CBD"), Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 2019, the disclosure requirements of the Capital Market Authority of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman ("CBO").

The Bank also prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by the CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the CBO, the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of the CBO. The IBW's financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All balances and transactions between the Bank and the IBW are eliminated in these financial statements. The accounting policies used in the preparation of these financial statements are consistent with those audited annual financial statements for the year ended 31 December 2020.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments measured at fair value, financial instruments at fair value through profit or loss (FVTPL) and financial instruments at fair value through other comprehensive income (FVOCI).

2.3 Functional and presentation currency

The financial statements are presented in Rial Omani ("RO"), which is the Bank's functional (currency of primary economic environment in which the Bank operates) and presentation currency, rounded to the nearest thousand unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

2 BASIS OF PREPARATION *(continued)*

2.5 Standards, amendments and interpretations to IFRS effective in 2021 and relevant for the Bank's operations:

The following amendments became effective from 1 January 2021:

- COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. On 31 March 2021, in light of the on-going pandemic, the IASB published additional amendment to extend the date for the concessions from 30 June 2021 to 30 June 2022 (effective for annual periods beginning on or after 1 April 2021).

  The Bank negotiated rent concessions with its landlords for a number of its branches as a result of the severe impact of the COVID-19 pandemic during the year. The Bank applied the practical expedient for COVID-19 related rent concessions consistently to eligible rent concessions relating to its branches. This amendment had no material impact on the financial statements of the Bank.

- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

  Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

  - Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

  - End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

  - Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

  - Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

2 BASIS OF PREPARATION *(continued)*

2.5 Standards, amendments and interpretations to IFRS effective in 2021 and relevant for the Bank's operations (continued):

Under these amendments, changes to the basis for determining the contractual cash flows are reflected by adjusting the effective interest rate. No immediate gain or loss is recognised. The same practical expedient exists for lease liabilities. These revisions of effective interest rate are only applicable when the change is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. Where some or all of a change in the basis for determining the contractual cash flows of a financial asset and liability does not meet the above criteria, the above practical expedient is first applied to the changes required by interest rate benchmark reform, including updating the instrument's effective interest rate. Any additional changes result in a modification or derecognition gain or loss. If lease modifications are made in addition to those required by the IBOR reform, the normal requirements of IFRS 16 are applied to the entire lease modification, including the changes required by the IBOR reform.

Effect of IBOR reform

Reform and replacement of various inter-bank offered rates ('IBORs') has become a priority for regulators. Many IBOR rates stopped being published on 31 December 2021, while certain USD LIBOR rates would stop being published by 30 June 2023. The table below discloses amounts of non-derivative financial assets and liabilities and derivative contracts at 31 December 2021 those are linked with LIBOR. The table below discloses the exposures which are maturing before 30 June 2023 and after 30 June 2023. Exposures of the Bank are linked with three month LIBOR or 6 month LIBOR which will cease to publish on 30 June 2023.

For new contracts being entered, the Bank is working with its customers and other counterparties, such as international financial institutions to perform a transition of legacy IBOR-based financial instruments to alternative benchmark interest rates and develop new financial products for its customers. The Bank is also enhancing its IT systems and internal processes to ensure smooth transition from IBOR to alternative benchmark interest rates.

Outstanding as at 31 December 2021 ***RO'000***	**Non-derivative financial assets**	**Non-derivative financial liabilities**	**Derivatives nominal amount**
Maturities before 30 June 2023			
USD one month LIBOR	**-**	**-**	**1,750**
USD three month LIBOR	**129,027**	**317,625**	**-**
USD six month LIBOR	**51,810**	**-**	**-**
Total	**180,837**	**317,625**	**1,750**
Maturities after 30 June 2023			
USD one month LIBOR	**5,834**	**-**	**-**
USD three month LIBOR	**285,682**	**-**	**124,517**
USD six month LIBOR	**159,232**	**15,400**	**-**
Total	**450,748**	**15,400**	**124,517**

2 BASIS OF PREPARATION *(continued)*

2.6 The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2021:

There are no relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 1 January 2021 that would be expected to have a material impact on the financial statements of the Bank.

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 16 – Property, Plant and Equipment — Proceeds before Intended Use, (effective on or after 1 January 2022)
- Amendments to IFRS 3 – Reference to the Conceptual Framework, (effective on or after 1 January 2022)
- Amendments to IAS 37 – Onerous Contracts — Cost of Fulfilling a Contract, (effective on or after 1 January 2022)
- Annual Improvements to IFRS Standards 2018–2020, (effective on or after 1 January 2022)
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current, (effective on or after 1 January 2023)
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2, (effective on or after 1 January 2023)
- Amendments to IAS 8: Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023)
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023)
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 (effective date of this pronouncement is yet to be determined)

The management is evaluating the impact on future financial statements, if any, of adopting these pronouncements.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated in to the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the income statement depending where the gain or loss on the underlying non-monetary item is recognised.

3.2 Financial assets and liabilities

3.2.1 Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities

3.2.2 Classification

(a) Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

On initial recognition, a financial asset is classified as measured at; amortised cost, FVOCI or FVTPL.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not initially designated as at FVTPL:

- the asset is held within business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

It is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost less allowance for expected credit losses.

Financial assets measured at fair value through other comprehensive income

i) Debt Instruments

An investment in debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity.

ii) Equity Instruments

For an equity instrument that is not held for trading, the Bank may elect at initial recognition to irrevocably designate those instruments under FVOCI. This election is made on an investment by investment basis. Amounts presented in other comprehensive income are not subsequently transferred to the statement of comprehensive income.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprises of investments held for trading and designated as FVTPL on initial recognition. They are initially recognised at fair value with transaction costs recognised in the statement of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of comprehensive income.

Business model assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Bank's business model assessment is based on the following categories:

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.2 Classification *(continued)*

(a) Financial assets *(continued)*

Business model assessment *(continued)*

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.2 Classification *(continued)*

(a) Financial assets *(continued)*

Financial guarantee contracts and loan commitments

For financial guarantee contracts and loan commitments, the loss allowance is recognised as provision for expected credit losses as described in note 3.3. The Bank has issued no loan commitment that are measured at FVTPL. Allowance for expected credit losses arising from financial guarantee and loan commitments are included within allowance for expected credit losses under other liabilities in statement of financial position.

Loans & advances and financing receivables

Loans & advances and financing receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest method less allowance for expected credit losses which are recognised in the statement of comprehensive income.

3.2.3 De-recognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in statement of comprehensive income.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in statement of comprehensive income on de-recognition of such securities. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognised as a separate asset or liability.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3.2.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the existing financial asset should be derecognized. Where a modification does not result in de-recognition, the date of origination continues to be used to determine significant increase in credit risk (SICR). Where a modification results in de-recognition, the new financial asset is recognized at its fair value on the modification date. The modification date is also the date of origination for this new asset.

The Bank may modify the contractual terms of loans for either commercial or credit reasons. The terms of a loan in good standing may be modified for commercial reasons to provide competitive pricing to borrowers. Loans are also modified for credit reasons where the contractual terms are modified to grant a concession to a borrower that may be experiencing financial difficulty.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.4 Modifications of financial assets and financial liabilities (continued)

For all financial assets modifications of the contractual terms may result in de-recognition of the original asset when the changes to the terms of the loans are considered substantial. These terms include interest rate, authorized amount, term, or type of underlying collateral. The original loan is derecognized and the new loan is recognized at its fair value. The difference between the carrying value of the derecognized asset and the fair value of the new asset is recognized in the statement of comprehensive income.

For all loans, performing and credit-impaired, where the modification of terms did not result in the de-recognition of the loan, the gross carrying amount of the modified loan is recalculated based on the present value of the modified cash flows discounted at the original effective interest rate and any gain or loss from the modification is recorded in the provision for credit losses line in the statement of comprehensive income.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in statement of comprehensive income . Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as de-recognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in statement of comprehensive income . For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.2.5 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

3.2.6 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR of any difference between the initial amount recognised and the maturity amount, minus any reduction for allowance for expected credit losses.

3.2.7 Fair value measurement

A number of the Bank’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.7 Fair value measurement (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3.2.8 Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank designates certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

The Bank designates certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3.3 Allowance for expected credit losses

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Balances with banks
- Loans, advances & financings to banks
- Debt investment securities
- Loans, advances & financings to customer
- Other assets
- Financial guarantees
- Unutilized limits
- Other assets (acceptances and interest receivables)

No allowance for expected credit losses is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured at 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Allowance for expected credit losses are measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood that the borrower of a loan or debt will not be able to make the necessary scheduled repayments and defaults over a given time horizon. Bank has developed PD models for various portfolios reflecting the existing state of the environment in which the bank operates and in line with a forward looking view. The PD models are built to capture the changing risk of default of clients over a long period of time and Bank has used its own internal data to develop such models. PD is assessed for pool of borrowers falling under each rating grade using statistical tools, which represents the average expected default probability within future 12 months horizons. While the ratings itself incorporate forward looking parameters to a certain extent, the models are structured in a way to produce average PD estimates in line with historical long-run averages including forward looking information.

- EAD – The exposure at default computed is the expected amount owed to the bank, expressed as an amount, at the time the client defaults, or is expected to default. The exposure can be distinguished between those amounts forming part of (i) revolving (ii) non-revolving and (iii) off-balance sheet exposures to the bank, as special considerations have been taken in treating each case. For all non-revolving exposures, the amount outstanding as on reporting date has been treated as EAD. For all revolving exposure, EAD shall be the sum of the amount outstanding and likely amount that will be utilised by the borrower from the unavailed limit before the default. The off balance sheet items are converted into credit exposure equivalent through credit conversion factor (or CCF) and accordingly, EAD is estimated.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The Bank has adopted different approaches for estimation of LGD depending on the portfolio. The Bank has used internal data reflecting Bank's own loss experience for development of model, however wherever the Bank lacked internal loss experience, external loss benchmarks are adopted.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

(a) Measurement of ECL

Expected credit losses are a probability-weighted estimate of credit losses (ie the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, the Bank measures the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

However for unfunded exposures, ECL is measured as follows:

- undrawn loan commitments: a credit loss is the present value of the difference between (a) the contractual cash flows that are due to the Bank if the holder of the loan commitment draws down the loan; and (b) the cash flows that the Bank expects to receive if the loan is drawn down; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover. For a financial guarantee contract, the Bank is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee. The guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

(b) Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

(c) Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired.

A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data regarding the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower’s financial condition, unless there is an evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (refer note 3.3 (g)) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

(d) *Forward-looking information*

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

(e) Macroeconomic factors

In ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as: real gross domestic product (GDP) growth and oil revenue (as % of GDP). The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the reporting date. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

(f) Assessment of significant increase in credit risk

The Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers counterparty quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessments for SICR on financial assets include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the counterparty and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of counterparties; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

(g) Definition of default

The Bank considers a financial asset to be in default when:

- The counterparty is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security held (if any); or

- The counterparty is past due more than 90 days on any material credit obligation to the Bank.

Overdrafts are considered as being in default if the outstanding balance remains continuously in excess of 10% of the sanctioned / authorized limit or in cases where there are not enough credits in the account to cover the interest charged or unauthorized drawings have frequently been allowed.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative – e.g. breaches of covenant;

- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and

- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied for regulatory capital purposes.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

(h) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortized cost: as a reduction from the gross carrying amount of the financial assets;
- Debt instruments measured at FVOCI: An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. No loss allowance is recognised in the statement of financial position because the carrying amount to these assets is their fair value.
- Off-balance sheet credit risks include undrawn lending commitments, letters of credit and letters of guarantee: as an allowance for expected credit losses on off-balance sheet items on other liabilities.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- Loan to value (LTV) ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity; and
- industry.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

(i) Write-off

Loans & advances and financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated allowance for expected credit losses loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the financing impairment account. If a write-off is later recovered, the recovery is credited to the statement of comprehensive income.

The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

3.4 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balance with CBO, balances with banks, treasury bills, Nostro balances, money market placements and deposits with original maturity of less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Due from banks

These are stated at amortised cost, less any amounts written off and provisions for allowance for expected credit osses. Due from banks includes placements and loans to banks.

3.6 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	7 – 25
Furniture and fixtures	3 – 7
Motor vehicles	3 – 5
Computer equipment	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the statement of comprehensive income .

Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

3.7 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances before de-recognition and the current fair value of such assets. Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of comprehensive income .

3.8 Intangible assets

Computer software costs that are directly associated with identifiable and unique software products controlled by the Bank and have probable economic benefit exceeding the costs beyond one year are recognised as an intangible asset. Computer software costs recognised as an asset are amortised using the straight-line method over the estimated useful life of 5-10 years.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 Deposits

Deposits from banks and customers, debt securities and subordinated liabilities are the Bank's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest rate (EIR) method.

3.10 Income tax

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Income tax is recognised in the comprehensive income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Deferred tax assets/liabilities are calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

3.11 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank in the statement of financial position.

3.12 Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date, and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

3.13 Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

3.14 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date derivative contracts are entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.14 Derivative financial instruments and hedging activities *(continued)*

Derivatives are initially recognised at fair value on the date derivative contracts are entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

On initial designation of the derivative as hedging instrument, the Bank formally documents the relationship between the hedging instrument and hedged item, including risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the method to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedging relationship as well as ongoing basis, of whether the hedging instrument are expected to be highly effective in offsetting the changes in fair value or cash flows of the respective hedged items attributable to the hedge risk.

In relation to cash flow hedges, the gain or loss on hedging instruments is recognised initially in other comprehensive income to the extent that the hedge is effective and is transferred to the statement of comprehensive income in the period in which the hedged transaction impacts the comprehensive income . If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to statement of comprehensive income.

The Bank does not have any derivatives designated as hedging instruments.

3.15 Leases

The Banks accounting policy for leases is described in note 36.

3.16 Employee benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in the statement of comprehensive income as incurred.

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

The obligation is calculated using the projected unit credit method and is discounted to its present value.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.17 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to Banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight line basis over the life of the guarantee and the amount of loss allowance for the guaranteed exposure determined based on the expected loss model. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

3.18 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.19 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the regulators and shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

3.20 Directors' remuneration

The Board of Directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman. This is recognised in the statement of comprehensive income.

3.21 Revenue and expense recognition

I. Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the gross carrying amount or the amortised cost of the financial asset or liability. The calculation of effective interest rate includes transaction costs and fees paid/ received that are an integral part of effective interest rate. Transaction costs includes incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for loss allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.21 Revenue and expense recognition *(continued)*

I. Interest income and expense *(continued)*

Interest income and expense presented in the statement of comprehensive income include:

(i) Interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and

(ii) Interest on debt investment securities on an effective interest rate basis.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (ie the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount. The additional interest income, which was previously not recognised in profit or loss due to the asset being in stage 3 but it is now expected to be received following the asset's curing, is recognised as a reversal of impairment.

II. Fees and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income is recognised over time on a straight-line basis as the services are rendered in cases when the customer simultaneously receives and consumes the benefits provided by the Bank's performance or at a point in time when the Bank satisfies performance obligation, usually upon execution of the underlying transaction. Other fees and commission income include account servicing fees, credit related fees, administration fees and other management fees, sales commission, placement fees, advisory fees and syndication fees.

Fees and commission income is measured based on the consideration specified in the contract with the customers. The products and services of the Bank covered under IFRS 15 along with its nature, timing of satisfaction of performance obligations and significant payment terms are as follows:

Transaction services

The services include opening, closing and maintenance of deposit accounts, cheque issuance, clearing, deposit and payments transactions, remittances, safe deposit lockers. It also include card and e-channel services like interchange and merchant services generated from card issuance and usage. Transaction-based fees are charged to the customer's account when the transaction takes place.

The Bank recognises revenue on completion of service or proportionate completion basis or satisfaction of performance obligation as per the terms of contract.

Trade services

The services cover issuance of letter of credit or guarantee, negotiations and other trade transactions.
Trade services fees are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.

Income is recognised on service completion basis or time proportionate basis over the period of contract.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.21 Revenue and expense recognition *(continued)*

ii. Fees and commission income (continued)

Syndication and other loan related services

The services include processing for credit, setting up credit limits, documentation, security and agency services and prepayment and closure of credit facilities. Syndication and other loan related services charges are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.

The Bank recognises revenue on completion of service basis or on time proportion basis.

Advisory and asset management services

Advisory services include advising for fund raising (rights issue, IPOs, bond issues etc). Advisory fees are charged to the customer's account on milestone completion basis or over the period of contract in line with the terms and conditions of contract.

3.22 Dividends

Dividend income is recognised in the statement of comprehensive income in 'Other income', when the Bank's right to receive income is established.

3.23 Provisions

A provision is recognised if, as a result of past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

3.24 Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The Bank currently operates only in the Sultanate of Oman. The Bank's segments are corporate, retail banking, Treasury and Investment. Segmental information pertaining to Islamic Banking Window is also disclosed in note 34.

3.25 Earnings per share

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

3.26 Perpetual Tier 1 capital securities

Perpetual Tier 1 Capital Securities of the Bank are recognised under equity and the corresponding distribution on those instruments are accounted as a debit to retained earnings. The Tier 1 securities constitute direct, unconditional, subordinated and unsecured instruments issued by the Bank that are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 securities do not have a fixed redemption or final maturity date and is redeemable by the Bank at its sole discretion on the first call date or thereafter on any interest payment date.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2020.

4.1 Allowance for expected credit losses of Loans, Advances and financing to customers and Islamic financing receivables

The Bank uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

The following are key estimations that have been used in the process of applying the Bank's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

In addition to these, the Bank used supportable forward-looking information for measurement of ECL. The forward-looking assumptions that correlate with ECL level and their assigned weights and sensitivity to assumptions are disclosed in note 32.

4.2 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. The Bank establishes provisions, based on reasonable estimates, for probable consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the Bank and the relevant tax authority.

Refer to note 24 for disclosures related to income taxes.

4.3 Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in de-recognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In articular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit impaired on initial recognition. The de-recognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognized nor reclassified out of the credit-impaired stage.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

4.3 Modification of financial assets (continued)

The Bank has also applied judgement in the calculations of present value of future cash flows while calculating the modification gain/(loss). The Bank has assumed that the accrued interest/profit for the period of deferment will be collected first from the customer after completion of deferment period. In case of no receipt or shortfall in accrued interest for the period of deferment, the bank will recover the accrued interest in the subsequent periods. However no interest on accrued interest for deferred customers will be charged as per the instruction of Central Bank of Oman.

4.4 Classification of the Equity Tier 1 instrument under IAS 32

The Bank has issued Perpetual Tier 1 Securities listed on the Euronext Dublin (formerly trading as Irish Stock Exchange) and Muscat Stock Exchange, which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

- no fixed date of maturity;
- payment of interest and/or capital is solely at the discretion of the Bank
- the instruments are deeply subordinated and rank just above the ordinary shareholders
- these securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of the Central Bank of Oman.

The determination of equity classification of these instruments requires significant judgement as certain Clauses, particularly the "Events of Default", require interpretation. The Directors, after factoring in the clauses relating to the write-down, non-payment and subordination in the instrument offering document consider that the Bank will not reach the point of insolvency before a write-down is affected due to a non-viability event. Accordingly, such clauses were assessed by the Directors as not being substantive for the purpose of determining the debt vs equity classification. The Directors have considered appropriate independent legal advice in forming their judgement around this matter.

4.5 Determination of lease term under IFRS 16

In determining the lease term, the Bank considers all facts and circumstances. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Bank considers the nature and enforceability of extension clause in the lease agreement, the value of leasehold improvements, penalties on termination, costs and business disruption required to replace the leased premises as factors to determine the lease term. Lease agreements for premises occupied by the Bank may contain an extension option, where the Bank has not considered extension options after analyzing the above factors.

Lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Bank. During the financial year, the Bank has not revised its assessment of lease term as no significant events or changes occurred.

5. Cash and balances with the Central Bank of Oman

	2021	2020
	RO'000	RO'000
Cash in hand	**29,984**	29,094
Balances with the Central Bank of Oman	**144,495**	73,867
Placements with the Central Bank of Oman	**77,000**	105,875
	251,479	208,836

Balances with CBO includes capital deposit of RO 0.5 million (2020: RO 0.5 million). This is not available for day to day operations of the Bank and cannot be withdrawn without the Central Bank of Oman's approval. During the year, the average minimum balance to be kept with Central Banks as statutory reserves was RO 88.970 million (2020: RO 83.18 million).

6. Loans, advances and financing to banks at amortised cost

	2021 RO'000	2020 RO'000
Syndicated loans to other banks	**25,749**	36,236
Placements with other banks	**73,525**	67,750
Current clearing accounts	**26,974**	17,990
	126,248	121,976
Less: allowance for expected credit losses	**(1,150)**	(454)
	125,098	121,522

Movement of the allowance for expected credit losses is analysed below:

	2021 RO'000	2020 RO'000
Opening balance as on 1 January	**454**	1,253
Charge / (Write Back) for the year	**696**	(799)
Closing balance as on 31 December	**1,150**	454

7. Loans, advances and financing to customers (conventional)

(a) Conventional Banking	2021 RO'000	2020 RO'000
Loans	**2,769,153**	2,670,470
Overdrafts	**113,544**	123,762
Loans against trust receipts	**91,730**	83,750
Bills discounted and advance against receivables	**29,160**	39,089
Advance against credit cards	**8,144**	8,521
Gross loans, advances and financing to customers	**3,011,731**	2,925,592
Less: allowance for expected credit losses including reserved interest	**(156,151)**	(135,124)
Net Loans, advances and financing to customers	**2,855,580**	2,790,468

(b) Islamic financing receivables

	2021 RO'000	2020 RO'000
Housing finance	**161,969**	166,054
Corporate finance	**326,541**	305,055
Consumer finance	**13,581**	13,074
	502,091	484,183
Less: allowance for expected credit losses including reserved interest	**(11,448)**	(9,163)
Net financing to customers	**490,643**	475,020

Allowance for expected credit losses includes the amount of interest reserve and profit reserve RO 29.27 million and RO 0.84 million respectively (2020: RO 24.09 million and RO 0.63 million).

7. Loans, advances and financing to customers (*continued*)

(c) The movement in the allowance for expected credit losses is analysed below:

i. Allowance for loans for expected credit losses (conventional and Islamic)

	2021	2020
	RO,000	RO,000
1 January	**119,568**	94,078
Allowance for the year	**34,636**	39,207
Recoveries to statement of comprehensive income during the year	**(10,294)**	(8,409)
Written off during the year	**(6,429)**	(5,308)
31 December	**137,481**	119,568

ii. Reserved interest

	2021	2020
1 January	**24,719**	24,169
Reserved during the year	**11,523**	11,925
Recoveries to statement of comprehensive income during the year	**(2,048)**	(2,137)
Written-off during the year	**(4,077)**	(9,238)
31 December	**30,117**	24,719

The reserve interest disclosed above is the amount of interest accrued on impaired loans which is not recognised in the statement of comprehensive income as per CBO norms. As of 31 December 2021, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 179.65 million (2020: RO 154.57 million). Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

In 2021, the Bank has written off RO 10.51 million (2020- RO 14.55 million) of provisions which includes RO 6.43 million (2020 - RO 5.31 million) of principal amount and RO 4.08 million (2020 – RO 9.24 million) of reserved interest as technical write off.

In accordance with CBO requirements, where the aggregate provision on portfolio and specific basis computed as per CBO norms is higher than the allowance for expected credit losses computed under IFRS 9, the difference, net of the impact of taxation, is transferred to an allowance for expected credit losses reserve as an appropriation from the retained earnings.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (Continued)

7. Loans, advances and financing to customers *(continued)*

(c) The movement in the allowance for expected credit losses is analysed below *(continued)***:**

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

Disclosure requirements containing the risk classification –wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognized as per IFRS 9 and reserve interest required as per CBO are given below based on CBO circular BM 1149.

In accordance with CBO circular BM 1149 Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant CBO norms, including those on restructuring of loans accounts for regulatory reporting purposes.

At 31 December 2021

RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L in the YTD	Reserve interest as per CBO norms for the YTD
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	2,608,026	38,544	20,015	18,529	2,569,482	2,588,011	-	-
	Stage 2	443,462	6,034	9,157	(3,123)	437,428	434,305	-	-
Standard	**Stage 3**	-	-	-	-	-	-	-	-
Subtotal		**3,051,488**	**44,578**	**29,172**	**15,406**	**3,006,910**	**3,022,316**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	282,681	3,993	25,774	(21,781)	278,688	256,907	-	-
Special Mention	**Stage 3**	-	-	-	-	-	-	-	-
Subtotal		**282,681**	**3,993**	**25,774**	**(21,781)**	**278,688**	**256,907**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Substandard	**Stage 3**	16,073	4,571	6,669	(2,098)	11,177	9,404	-	325
Subtotal		**16,073**	**4,571**	**6,669**	**(2,098)**	**11,177**	**9,404**	**-**	**325**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	**Stage 3**	13,321	5,613	5,086	527	6,840	8,235	-	868
Subtotal		**13,321**	**5,613**	**5,086**	**527**	**6,840**	**8,235**	**-**	**868**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	**Stage 3**	150,259	102,242	70,780	31,462	19,093	79,479	-	28,924
Subtotal		**150,259**	**102,242**	**70,780**	**31,462**	**19,093**	**79,479**	**-**	**28,924**
Total loans and advances		**3,513,822**	**160,997**	**137,481**	**23,516**	**3,322,708**	**3,376,341**	**-**	**30,117**
Other items not covered under CBO circular BM 977 and related instructions	**Stage 1**	1,887,346	179	7,630	(7,451)	1,887,167	1,879,716	-	-
	Stage 2	313,357	-	5,422	(5,422)	313,357	307,935	-	-
	Stage 3	7,202	-	-	-	7,202	7,202	-	-
Subtotal		**2,207,905**	**179**	**13,052**	**(12,873)**	**2,207,726**	**2,194,853**	**-**	**-**
	Stage 1	**4,495,372**	**38,723**	**27,645**	**11,078**	**4,456,649**	**4,467,727**	**-**	**-**
	Stage 2	**1,039,500**	**10,027**	**40,353**	**(30,326)**	**1,029,473**	**999,147**	**-**	**-**
Total (31 December 2021)	**Stage 3**	**186,855**	**112,426**	**82,535**	**29,891**	**44,312**	**104,320**	**-**	**30,117**
	Total	**5,721,727**	**161,176**	**150,533**	**10,643**	**5,530,434**	**5,571,194**	**-**	**30,117**

* Net of provision and reserve interest as per CBO norms.

7. Loans, advances and financing to customers *(continued)*

(c) The movement in the allowance for expected credit losses is analysed below *(continued)*:

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

At 31 December 2020

RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per in the YTD	Reserve interest as per CBO norms for the YTD
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	2,592,730	36,881	17,626	19,255	2,555,849	2,575,104	-	-
	Stage 2	403,114	5,287	4,320	967	397,827	398,794	-	-
Standard	Stage 3	-	-	-	-	-	-	-	-
Subtotal		2,995,844	42,168	21,946	20,222	2,953,676	2,973,898	-	-
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	259,364	3,404	29,394	(25,990)	255,960	229,970	-	-
Special Mention	Stage 3	-	-	-	-	-	-	-	-
Subtotal		259,364	3,404	29,394	(25,990)	255,960	229,970	-	-
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Substandard	Stage 3	10,708	5,202	5,059	143	4,998	5,649	-	508
Subtotal		10,708	5,202	5,059	143	4,998	5,649	-	508
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	Stage 3	12,994	6,805	6,447	358	5,122	6,547	-	1,067
Subtotal		12,994	6,805	6,447	358	5,122	6,547	-	1,067
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	Stage 3	130,865	88,882	56,722	32,160	18,839	74,143	-	23,144
Subtotal		130,865	88,882	56,722	32,160	18,839	74,143	-	23,144
Total loans and advances		3,409,775	146,461	119,568	26,893	3,238,595	3,290,207	-	24,719
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	2,004,781	186	5,743	(5,557)	2,004,595	1,999,038	-	-
	Stage 2	296,656	-	7,001	(7,001)	296,656	289,655	-	-
	Stage 3	2,609	-	-	-	2,609	2,609	-	-
Subtotal		2,304,046	186	12,744	(12,558)	2,303,860	2,291,302	-	-
Total (31 December 2020)	Stage 1	4,597,511	37,067	23,369	13,698	4,560,444	4,574,142	-	-
	Stage 2	959,134	8,691	40,715	(32,024)	950,443	918,419	-	-
	Stage 3	157,176	100,889	68,228	32,661	31,568	88,948	-	24,719
	Total	5,713,821	146,647	132,312	14,335	5,542,455	5,581,509	-	24,719

* Net of provision and reserve interest as per CBO norms

(d) Restructured Loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the Directors, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

7. Loans, advances and financing to customers *(continued)*

(d) Restructured Loans *(continued)*

At 31 December 2021

RO'000

Asset Classification as per CBO Norms 31 December 2021	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) = (3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	57,314	565	475	90	56,749	56,839	-	-
Classified as performing	Stage 2	145,761	7,437	13,490	(6,053)	138,324	132,271	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**203,075**	**8,002**	**13,965**	**(5,963)**	**195,073**	**189,110**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Classified as non-performing	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	7,113	4,248	3,906	342	1,650	3,207	-	1,215
Sub total		**7,113**	**4,248**	**3,906**	**342**	**1,650**	**3,207**	**-**	**1,215**
	Stage 1	**57,314**	**565**	**475**	**90**	**56,749**	**56,839**	**-**	**-**
	Stage 2	**145,761**	**7,437**	**13,490**	**(6,053)**	**138,324**	**132,271**	**-**	**-**
Total (31 December 2021)	**Stage 3**	**7,113**	**4,248**	**3,906**	**342**	**1,650**	**3,207**	**-**	**1,215**
	Total	**210,188**	**12,250**	**17,871**	**(5,621)**	**196,723**	**192,317**	**-**	**1,215**

* Net of provision and reserve interest as per CBO norms

At 31 December 2020

RO'000

Asset Classification as per CBO Norms 31 December 2020	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) = (3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	6,940	65	203	(138)	6,875	6,737	-	-
Classified as performing	Stage 2	61,014	4,331	9,342	(5,011)	56,683	51,672	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**67,954**	**4,396**	**9,545**	**(5,149)**	**63,558**	**58,409**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Classified as non-performing	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	5,982	2,834	2,387	447	1,705	3,595	-	1,443
Sub total		**5,982**	**2,834**	**2,387**	**447**	**1,705**	**3,595**	**-**	**1,443**
	Stage 1	**6,940**	**65**	**203**	**(138)**	**6,875**	**6,737**	**-**	**-**
	Stage 2	**61,014**	**4,331**	**9,342**	**(5,011)**	**56,683**	**51,672**	**-**	**-**
Total (31 December 2020)	**Stage 3**	**5,982**	**2,834**	**2,387**	**447**	**1,705**	**3,595**	**-**	**1,443**
	Total	**73,936**	**7,230**	**11,932**	**(4,702)**	**65,263**	**62,004**	**-**	**1,443**

* Net of provision and reserve interest as per CBO norms

7. Loans, advances and financing to customers *(continued)*

(d) Restructured Loans *(continued)*

At 31 December 2021

CBO through its letter BSD/CB & FLCs/2021/004 dated 18 November 2021 provided window for restructuring/rescheduling of credit facilities for the affected borrowers.

Asset Classification as per CBO Norms 31-Dec-21	Asset Classification as per IFRS 9	Gross Carrying Amount	ECL required as per CBO circular on new restructuring window	ECL held as per IFRS 9	Difference between ECL as per circular and ECL held as per IFRS 9	Net Carrying Amount per CBO circular on new restructuring window	Net Carrying Amount as per IFRS 9
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) = (3)-(4)	(8) = (3)-(5)
Corporate	Stage 1	55,692	835	438	(397)	54,857	55,254
	Stage 2	80,406	5,226	8,322	3,096	75,180	72,084
	Stage 3	-	-	-	-	-	-
Subtotal		**136,098**	**6,062**	**8,760**	**2,699**	**130,036**	**127,338**
	Stage 1	-	-	-	-	-	-
SME	Stage 2	1,127	73	97	24	1,054	1,030
	Stage 3	-	-	-	-	-	-
Sub total		**1,127**	**73**	**97**	**24**	**1,054**	**1,030**
Total	**Stage 1**	**55,692**	**835**	**438**	**(397)**	**54,857**	**55,254**
(31 December 2021)	**Stage 2**	**81,533**	**5,300**	**8,419**	**3,120**	**76,233**	**73,114**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**
	Total	**137,225**	**6,135**	**8,857**	**2,722**	**131,090**	**128,368**

iv. Allowance for expected credit losses charge and provisions held 2021

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	**161,176**	**150,533**	**10,643**
Gross NPL ratio	**5.11%**	**5.11%**	**-**
Net NPL ratio	**1.06%**	**1.91%**	**-0.85%**

Gross NPL (Non-performing Loans) are 5.11% and Net NPL is 1.91% based on funded non-performing exposure over funded exposure.

Note 1: Excluding Interest Reserve of RO 30.12 million.

In accordance with Central Bank of Oman (CBO) circular BM 1149, the mandatory regulatory impairment reserve is created when the provisions and reserve interest required as per CBO norms exceeds the allowance for expected credit losses as per IFRS. The allowance for expected credit losses reserve is a yearly appropriation from the net profit after tax. The regulatory impairment reserve will not be available for payment of dividend or for inclusion in regulatory capital. Any subsequent utilisation of the impairment reserve would require prior approval of the CBO.

However, as per circular BSD/CB/&FLCs/2021/002 dated 18 March 2021, CBO has suspended two-track approach / parallel run for the computation of additional provisions as per CBO norms for the financial year 2021 only. During the period no reserve has been transferred to 'Impairment Reserve' as there is no additional provision required as per CBO guidelines.

v *Special impairment reserve*

During 2021 no amount of special reserves was transferred from retained earnings to the special impairment reserve because CBO has suspended the two-track approach for the financial year 2021. In 2020, an amount of RO 7.5 million net of deferred tax of RO 2.15 million was transferred from retained earnings to the special impairment reserve representing the difference of provisions on loans and advances required as per regulatory requirements under CBO circular BM977 of RO 146. 65 million and ECL provisions held as per IFRS 9 of RO 132.31 million.

7. Loans, advances, and financing to customers *(continued)*

v Special impairment reserve (continued)

Impairment charge and provisions held 2020

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	146,647	132,312	14,335
Gross NPL ratio	4.53%	4.53%	-
Net NPL ratio	0.85%	1.81%	(0.96%)

Note 1: Excluding Interest Reserve of RO 24.72 million.

Movement of provisions under IFRS 9 and CBO norms for the year ended 31 December 2021

	As per CBO Norms RO'000	**As per IFRS 9 RO'000**	**Difference RO'000**
Opening Balance – 1 January 2021	**146,647**	**132,312**	**14,335**
Allowance for expected credit losses charge for the year	**31,252**	**34,945**	**(3,693)**
Less: write-back during the year	**(10,294)**	**(10,294)**	**-**
Less: written off during the year	**(6,429)**	**(6,429)**	**-**
Closing balance – 31 December 2021	**161,176**	**150,534**	**10,642**
Total after tax (Net)			**9,047**

Movement of IFRS 9 Special Impairment Reserve for the year ended 31 December 2021

	RO'000
Opening Balance	**12,184**
Net charge for the year after tax	-
Closing Balance as at 31 December 2021	**12,184**

Movement of Provision for the year ended 31 December 2020

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Opening Balance – 1 January 2020	113,284	108,630	4,654
Allowance for expected credit losses charge for the year	47,080	37,399	9,681
Less: write-back during the year	(8,409)	(8,409)	-
Less: written off during the year	(5,308)	(5,308)	-
Closing balance – 31 December 2020	146,647	132,312	14,335
Total after tax (Net)			12,184

Movement of IFRS 9 Special Impairment Reserve for the year ended 31 December 2020

	RO'000
Opening Balance	4,654
Net charge for the year after tax	7,530
Closing Balance as at 31 December 2020	**12,184**

RO 7.53 million would have been the impact on the net profits if additional provisions as per the Central Bank of Oman requirements had been made.

7. Loans, advances and financing to customers *(continued)*

vi. Stage wise exposure, allowance for expected credit losses and net exposures

The following table discloses the stage-wise gross exposure, allowance for expected credit losses and net exposure of only those financial assets that are tested for allowance for expected credit losses under IFRS 9 as at 31 December 2021:

RO'000

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Central Bank balances	221,495	-	-	**221,495**
Due from Banks	126,248	-	-	**126,248**
Sovereign	404,041	-	-	**404,041**
Investment Securities at amortized cost	917	-	-	**917**
Investment Securities at FVOCI	36,192	-	-	**36,192**
Loans and advances	2,608,026	726,143	179,653	**3,513,822**
Accrued Interest	32,460	12,770	54	**45,284**
Acceptances	175,018	6,080	-	**181,098**
Total funded gross exposure	**3,604,397**	**744,993**	**179,707**	**4,529,097**
Letters of credit/guarantee	463,445	98,632	7,148	**569,225**
Loan commitment / unutilised limits	427,530	195,875	-	**623,405**
Total non-funded gross exposure	890,975	294,507	7,148	**1,192,630**
Total gross exposure	**4,495,372**	**1,039,500**	**186,855**	**5,721,727**
Allowance for expected credit losses				
Central Bank balances	-	-	-	**-**
Due from Banks	1,150	-	-	**1,150**
Sovereign	-	-	-	**-**
Investment Securities at amortized cost	-	-	-	**-**
Investment Securities at FVOCI	247	-	-	**247**
Loans and advances	20,015	34,931	82,535*	**137,481**
Accrued Interest	131	212	-	**343**
Acceptances	899	16	-	**915**
Total funded allowance for expected credit losses	**22,442**	**35,159**	**82,535**	**140,136**
Letters of credit/guarantee	3,534	4,054	-	**7,588**
Loan commitment/unutilised limits	1,669	1,140	-	**2,809**
Total non-funded allowance for expected credit losses	5,203	5,194	-	**10,397**
Total allowance for expected credit losses	**27,645**	**40,353**	**82,535**	**150,533**
Net exposure				
Central Bank balances	221,495	-	-	**221,495**
Due from Banks	125,098	-	-	**125,098**
Sovereign	404,041	-	-	**404,041**
Investment Securities at amortized Cost	917	-	-	**917**
Investment Securities at FVOCI	35,945	-	-	**35,945**
Loans and advances	2,588,011	691,212	97,118	**3,376,341**
Accrued Interest	32,329	12,558	54	**44,941**
Acceptances	174,119	6,064	-	**180,183**
Total funded net exposure	**3,581,955**	**709,834**	**97,172**	**4,388,961**
Letters of credit/guarantee	459,911	94,578	7,148	**561,637**
Loan commitment / unutilised limits	425,861	194,735	-	**620,596**
Total net non-funded exposure	**885,772**	**289,313**	**7,148**	**1,182,233**
Total net exposure	**4,467,727**	**999,147**	**104,320**	**5,571,194**

Gross exposure of loans and advances of RO 179.65 million under stage 3 includes reserved interest of RO 30.12 million.

*this includes the ECL of RO 2.96 million of stage 3 financial guarantees.

7. Loans, advances and financing to customers *(continued)*

vi. Stage wise exposure, allowance for expected credit losses and net exposures *(continued)*

The following table discloses the stage-wise gross exposure, allowance for expected credit losses and net exposure of only those financial assets that are tested for allowance for expected credit losses under IFRS 9 as at 31 December 2020:

RO'000

Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Central Bank balances	179,742	-	-	179,742
Due from Banks	121,976	-	-	121,976
Sovereign	393,700	-	-	393,700
Investment Securities at amortized cost	917	-	-	917
Investment Securities at FVOCI	56,042	-	-	56,042
Loans and advances	2,592,730	662,478	154,567	3,409,775
Accrued Interest	31,717	9,753	656	42,126
Acceptances	97,636	6,496	-	104,132
Total funded gross exposure	**3,474,460**	**678,727**	**155,223**	**4,308,410**
Letters of credit/guarantee	557,480	102,058	1,953	661,491
Loan commitment / unutilised limits	565,571	178,349	-	743,920
Total non-funded gross exposure	**1,123,,051**	**280,407**	**1,953**	**1,405,411**
Total gross exposure	**4,597,511**	**959,134**	**157,176**	**5,713,821**
Allowance for expected credit losses				
Central Bank balances	-	-	-	-
Due from Banks	454	-	-	454
Sovereign	-	-	-	-
Investment Securities at amortized cost	-	-	-	-
Investment Securities at FVOCI	238	-	-	238
Loans and advances	17,626	33,714	68,228*	119,568
Accrued Interest	111	289	-	400
Acceptances	341	15	-	356
Total funded allowance for expected credit losses	**18,770**	**34,018**	**68,228**	**121,016**
Letters of credit/guarantee	2,598	5,739	-	8,337
Loan commitment/unutilised limits	2,001	958	-	2,959
Total non-funded allowance for expected credit losses	4,599	6,697	-	**11,296**
Total allowance for expected credit losses	**23,369**	**40,715**	**68,228**	**132,312**
Net exposure				
Central Bank balances	179,742	-	-	179,742
Due from Banks	121,522	-	-	121,522
Sovereign	393,700	-	-	393,700
Investment Securities at amortized Cost	917	-	-	917
Investment Securities at FVOCI	55,804	0	0	55,804
Loans and advances	2,575,104	628,764	86,339	3,290,207
Accrued Interest	31,606	9,464	656	41,726
Acceptances	97,295	6,481	-	103,776
Total funded net exposure	**3,455,690**	**644,709**	**86,995**	**4,187,394**
Letters of credit/guarantee	554,882	96,319	1,953	653,154
Loan commitment / unutilised limits	563,570	177,391	-	740,961
Total net non-funded exposure	**1,118,452**	**273,710**	**1,953**	**1,394,115**
Total net exposure	**4,574,142**	**918,419**	**88,948**	**5,581,509**

Gross exposure of loans and advances of RO 154.57 million under stage 3 includes reserved interest of RO 24.72 million.

*this includes the ECL of RO 0.82 million of stage 3 financial guarantees.

7. Loans, advances and financing to customers *(continued)*

vi. Stage wise exposure, allowance for expected credit losses and net exposures *(continued)*

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – as at 1 January 2021				
- Due from banks	454	-	-	454
- Loans and advances to customers	17,626	33,714	68,228	119,568
- Investment securities at FVOCI (Debt)	238	-	-	238
- Loan commitments and financial guarantees	2,598	5,739	-	8,337
- Acceptances	341	15	-	356
- Unutilised	2,001	958	-	2,959
- Interest accrued	111	289	-	400
Total	**23,369**	**40,715**	**68,228**	**132,312**
Net transfer between stages				
- Loans and advances to customers	386	(11,351)	10,965	-
- Loan commitments and financial guarantees	24	(24)	-	-
-Unutilised	39	(39)	-	-
-Interest Accrued	-	-	-	-
Total	**448**	**(11,413)**	**10,965**	**-**
Charge for the Year (net of recoveries)				
- Due from banks	697	-	-	697
- Loans and advances to customers	2,003	12,568	9,771	24,342
- Investment securities at FVOCI (Debt)	9	-	-	9
- Letter of credit and financial guarantees	912	(1,661)	-	(749)
- Acceptances	558	1	-	559
- Unutilised	(371)	221	-	(150)
- Interest accrued	20	(77)	-	(57)
Total	**3,828**	**11,052**	**9,771**	**24,651**
Written-off	**-**	**-**	**(6,429)**	**(6,429)**
Closing Balance – as at 31 December 2021				
- Due from banks	1,150	-	-	1,150
- Loans and advances to customers	20,015	34,931	82,535	137,481
- Investment securities at FVOCI (Debt)	247	-	-	247
- Loan commitments and financial guarantees	3,534	4,054	-	7,588
- Acceptances	899	16	-	915
- Unutilised	1,669	1,140	-	2,809
- Interest accrued	131	212	-	343
Total expected credit loss	**27,645**	**40,353**	**82,535**	**150,533**

The most significant changes in the ECL of the Bank arise from the loans and advances to customers. The changes in the ECL on other financial assets at amortised cost and unfunded exposures including loan commitments are not significant.

As to loan and advances to customers, the ECL changes primarily relate to the corporate portfolio and were due to the downward movement of exposures to non-performing and satisfactory grades. This was partially offset due to favourable outcomes from positive changes in the macro-economic variables. The subsequent remeasurement of these exposures post stage transfer is reflected in the charge for the year.

7. Loans, advances and financing to customers *(continued)*

vi. Stage wise exposure, allowance for expected credit losses and net exposures *(continued)*

	Stage 1	**Stage 2**	**Stage 3**	***RO'000*** **Total**
Opening Balance – as at 1 January 2020				
- Due from banks	1,253	-	-	1,253
- Loans and advances to customers	11,586	26,057	56,435	94,078
- Investment securities at FVOCI (Debt)	186	-	-	186
- Loan commitments and financial guarantees	2,442	7,297	-	9,739
- Acceptances	78	18	-	96
- Unutilised	1,891	1,192	-	3,083
- Interest Accrued	59	136	-	195
Total	17,495	34,700	56,435	108,630
Net transfer between stages				
- Loans and advances to customers	9,131	(11,203)	2,072	-
- Letter of credit and and financial guarantees	2,399	(2,399)	-	-
- Acceptances	-	-	-	-
- Unutilised	(9)	9	-	-
- Interest accrued	1	(4)	3	-
Total	11,522	(13,597)	2,075	-
Charge for the Period (net of recoveries)				
- Due from banks	(799)	-	-	(799)
- Loans and advances to customers	(3,091)	18,860	15,029	30,798
- Investment securities at FVOCI (Debt)	52	-	-	52
- Loan commitments and financial guarantees	(2,243)	841	-	(1,402)
- Acceptances	263	(3)	-	260
- Unutilised	119	(243)	-	(124)
- Interest accrued	52	153	-	205
Total	(5,647)	19,608	15,029	28,990
Written-off during the year	-	-	(5,308)	(5,308)
Closing Balance – as at 31 December 2020				
- Due from banks	454	-	-	454
- Loans and advances to customers	17,626	33,714	68,228	119,568
- Investment securities at FVOCI (Debt)	238	-	-	238
- Loan commitments and financial guarantees	2,598	5,739	-	8,337
- Acceptances	341	15	-	356
- Unutilised	2,001	958	-	2,959
- Interest accrued	111	289	-	400
Total expected credit loss	23,369	40,715	68,228	132,312

7. Loans, advances and financing to customers *(continued)*

vii. Reconciliation of financial assets and liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments:

RO'000

31 December 2021	**Notes**	**FVTPL**	**FVOCI – equity instruments**	**FVOCI – debt instrument**	**Amortised cost**	**Total carrying amount**
Cash and balances with CBO	*5*	**-**	**-**	**-**	**251,479**	**251,479**
Loans and advances to banks	*6*	**-**	**-**	**-**	**125,098**	**125,098**
Loans and advances to customers	*7*	**-**	**-**	**-**	**3,346,223**	**3,346,223**
Investment securities	*8*	**2,823**	**2,490**	**116,753**	**324,150**	**446,216**
Other assets	*11*	**6,601**	**-**	**-**	**238,925**	**245,526**
		9,424	**2,490**	**116,753**	**4,285,875**	**4,414,542**
Due to banks	*12*	**-**	**-**	**-**	**460,889**	**460,889**
Deposits from customers	*13*	**-**	**-**	**-**	**2,975,639**	**2,975,639**
Subordinated liabilities	*15*	**-**	**-**	**-**	**35,000**	**35,000**
Other liabilities	*14*	**5,053**	**-**	**-**	**254,264**	**259,317**
		5,053	**-**	**-**	**3,725,792**	**3,730,845**

Other assets include RO 6.601 million of positive fair value of derivatives financial instruments mandatorily measured at FVPTL and other liabilities includes negative fair value derivatives financial instruments of RO 5.053 million.

31 December 2020	**Notes**	**FVTPL**	**FVOCI – equity instruments**	**FVOCI – debt instrument**	**Amortised cost**	**Total carrying amount**
Cash and balances with CBO	*5*	-	-	-	208,836	208,836
Loans and advances to banks	*6*	-	-	-	121,522	121,522
Loans and advances to customers	*7*	-	-	-	3,265,488	3,265,488
Investment securities	*8*	4,120	3,276	114,819	335,602	457,817
Other assets	*11*	14,364	-	-	160,695	175,059
		18,484	3,276	114,819	4,092,143	4,228,722
Due to banks	*12*	-	-	-	451,955	451,955
Deposits from customers	*13*	-	-	-	2,861,315	2,861,315
Subordinated liabilities	*15*	-	-	-	35,000	35,000
Other liabilities	*14*	10,522	-	-	184,563	195,085
		10,522	-	-	3,532,833	3,543,355

Other assets include RO 14.364 million of positive fair value of derivatives financial instruments mandatorily measured at FVPTL and other liabilities includes negative fair value derivatives financial instruments of RO 10.52 million.

8 Investment securities

	2021 RO'000	2020 RO'000
Equity investments:		
Measured at FVTPL	**1,649**	1,697
Measured at FVOCI	**2,490**	3,276
Gross equity investments	**4,139**	4,973
Debt investments:		
Designated at FVTPL	**1,174**	2,423
Measured at FVOCI	**117,000**	115,057
Measured at amortized cost	**324,150**	335,602
Gross debt investments	**442,324**	453,082
Total investment securities	**446,463**	458,055
Less: allowance for expected credit losses allowance	**(247)**	(238)
Total investment securities	**446,216**	457,817
Investment securities measure as at FVTPL	**2,823**	4,120
Investment securities measured at FVOCI	**119,243**	118,095
Debt investments measured at amortised cost	**324,150**	335,602
	446,216	457,817

The Bank has designated some investments in equity instruments at FVOCI as these are investments that the Bank plans to hold in the long-term for strategic reasons. The movement of investment securities is summarised in the following pages.

8. 1 Categories of investments by measurement

As at 31 December 2021	**FVTPL RO'000**	**FVOCI RO'000**	**Amortized cost RO'000**	**Total RO'000**
Quoted Equities:				
Other services sector	**-**	**286**	**-**	**286**
Financial services sector	**-**	**199**	**-**	**199**
Industrial sector	**-**	**1,488**	**-**	**1,488**
	-	**1,973**	**-**	**1,973**
Unquoted Equities:				
Local securities	**-**	**517**	**-**	**517**
Unit funds	**1,649**	**-**	**-**	**1,649**
	1,649	**517**	**-**	**2,166**
Gross Equity investments	**1,649**	**2,490**	**-**	**4,139**
Quoted Debt:				
Government Development Bonds and Sukuk	**-**	**80,808**	**323,233**	**404,041**
Foreign Bonds	**1,174**	**395**	**-**	**1,569**
Local bonds and Sukuks	**-**	**35,797**	**917**	**36,714**
Treasury Bills	**-**	**-**	**-**	**-**
Gross debt investments	**1,174**	**117,000**	**324,150**	**442,324**
Total Investment Securities				
Less: allowance for expected credit losses on investments	**-**	**(247)**	**-**	**(247)**
	2,823	**119,243**	**324,150**	**446,216**

Government Development Bonds and Sukuks represents Oman Government Bonds and Oman Sovereign Sukuk having face value of RO 321 million (2020: RO 302.33 million) at average coupon rate of 5.625% to 6.75% maturing between 2022 and 2031.

Omani Treasury bills represents Nil (2020: RO 30 million) average yield of Nil (2020: 0.65%).

8. Investments securities *(continued)*

8. 1 Categories of investments by measurement *(continued)*

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO 000's	FVOCI Equity investment RO 000's	Amortised cost RO 000's	FVTPL RO 000's	Total RO 000's
At 1 January 2021	**115,057**	**3,276**	**335,602**	**4,120**	**458,055**
Additions	**21,474**	**-**	**64,706**	**5**	**86,185**
Disposals and redemption	**(20,051)**	**(1,031)**	**(76,158)**	**(1,348)**	**(98,588)**
Gain from change in fair value	**570**	**245**	**-**	**46**	**861**
Amortisation of discount and premium	**(50)**	**-**	**-**	**-**	**(50)**
At 31 December 2021	**117,000**	**2,490**	**324,150**	**2,823**	**446,463**
Less: Allowance for expected credit losses on investments*	**(247)**	**-**	**-**	**-**	**(247)**
31 December 2021	**116,753**	**2,490**	**324,150**	**2,823**	**446,216**

*the amount of ECL is adjusted in the carrying value of FVOCI debt instruments and not recognised in other comprehensive income.

As at 31 December 2020	**FVTPL RO'000**	**FVOCI RO'000**	**Amortized cost RO'000**	**Total RO'000**
Quoted Equities:				
Other services sector	-	998	-	998
Financial services sector	-	112	-	112
Industrial sector	-	1,593	-	1,593
	-	2,703	-	2,703
Unquoted Equities:				
Local securities	-	573	-	573
Unit funds	1,697	-	-	1,697
	1,697	573	-	2,270
Gross Equity investments	1,697	3,276	-	4,973
Quoted Debt:				
Government Bonds and sukuk	-	87,887	304,685	392,572
Foreign Bonds	2,423	403	-	2,826
Local bonds and sukuks	-	26,767	917	27,684
Treasury Bills	-	-	30,000	30,000
Gross debt investments	2,423	115,057	335,602	453,082
Total Investment Securities	4,120	118,333	335,602	458,055
Less: Allowance for expected credit losses on investments	-	(238)	-	(238)
	4,120	118,095	335,602	457,817

The Bank has designated certain investments in equity instruments at FVOCI as these are investments that the bank plans to hold for long-term for strategic reasons.

8. Investments securities *(continued)*

8. 1 Categories of investments by measurement *(continued)*

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO 000's	**FVOCI Equity investment RO 000's**	**Amortised cost RO 000's**	**FVTPL RO 000's**	**Total RO 000's**
At 1 January 2020	70,556	3,643	300,275	4,263	378,737
Additions	53,676	-	122,327	-	176,003
Disposals and redemption	(7,839)	-	(87,000)	(156)	(94,995)
Loss from change in fair value	(1,271)	(367)	-	13	(1,625)
Amortisation of discount and premium	(65)	-	-	-	(65)
At 31 December 2020	115,057	3,276	335,602	4,120	458,055
Less: Allowance for expected credit losses on investments*	(238)	-	-	-	(238)
31 December 2020	114,819	3,276	335,602	4,120	457,817

*the amount of ECL is adjusted in the carrying value of FVOCI debt instruments and not recognised in other comprehensive income.

9. Intangible asset

31 December 2021	**Software RO'000**
Cost	
1 January 2021	**28,506**
Additions	**4,474**
Disposals	**-**
31 December 2021	**32,980**
Depreciation	
1 January 2021	**16,703**
Charge for the year	**3,511**
Disposals	**-**
31 December 2021	**20,214**
Carrying value	
31 December 2021	**12,766**

9. Intangible asset *(Continued)*

31 December 2020

	Goodwill RO'000	Software RO'000
Cost		
1 January 2020	397	21,707
Additions	-	6,799
Disposals	-	-
31 December 2020	397	28,506
Depreciation/impairment		
1 January 2020	-	(13,664)
Charge for the year	(397)	(3,038)
Disposals	-	-
31 December 2020	(397)	(16,702)
Carrying value		
31 December 2020	-	11,804

Intangible asset represents computer software acquired by the bank over a period of time. The estimated useful life of these intangible assets ranges between five to ten years.

10. Property and equipment

31 December 2021	Freehold land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor vehicles RO'000	Computer Equipment RO'000	Capital work-in-progress RO'000	Right use of Asset RO'000	Total RO'000
Cost								
1 January 2021	**140**	**1,573**	**18,069**	**1,326**	**15,150**	**1,126**	**2,933**	**40,317**
Additions	**-**	**-**	**280**	**9**	**1,328**	**100**	**39**	**1,756**
Disposals	**-**	**(110)**	**-**	**(35)**	**-**	**-**	**(102)**	**(247)**
31 December 2021	**140**	**1,463**	**18,349**	**1,300**	**16,478**	**1,226**	**2,870**	**41,826**
Depreciation								
1 January 2021	**-**	**1,410**	**14,310**	**1,252**	**12,227**	**-**	**1,476**	**30,675**
Charge for the year	**-**	**58**	**1,314**	**60**	**1,489**	**-**	**655**	**3,576**
Disposals	**-**	**(110)**	**-**	**(35)**	**-**	**-**	**(77)**	**(222)**
31 December 2021	**-**	**1,358**	**15,624**	**1,277**	**13,716**	**-**	**2,054**	**34,029**
Carrying value								
31 December 2021	**140**	**105**	**2,725**	**23**	**2,762**	**1,226**	**816**	**7,797**

10. Property and equipment *(continued)*

31 December 2020	Freehold land RO’000	Buildings RO’000	Furniture and fixtures RO’000	Motor vehicles RO’000	Computer equipment RO’000	Capital work-in-progress RO’000	Right use of Asset RO’000	Total RO’000
Cost								
1 January 2020	140	1,573	17,165	1,326	13,837	1,597	2,640	38,278
Additions	-	-	971	21	1,313	(471)	383	2,217
Disposals	-	-	(67)	(21)	-	-	(90)	(178)
31 December 2020	140	1,573	18,069	1,326	15,150	1,126	2,933	40,317
Depreciation								
1 January 2020	-	1,351	12,947	1,169	10,865	-	817	27,149
Charge for the year	-	59	1,429	104	1,363	-	676	3,631
Disposals	-	-	(66)	(21)	-	-	(17)	(104)
31 December 2020	-	1,410	14,310	1,252	12,228	-	1,476	30,676
Carrying value								
31 December 2020	140	163	3,759	74	2,922	1,126	1,457	9,641

11. Other assets

	2021 RO'000	2020 RO'000
Acceptances	**181,098**	104,132
Interest receivable	**45,284**	42,126
Prepaid expenses	**1,519**	1,915
Positive fair value of derivatives (note 30)	**6,601**	14,364
Other receivables	**12,543**	14,437
Less: allowance for expected credit losses	**(1,258)**	(400)
	245,787	176,574

Credit quality of acceptances and interest receivables is presented in note 32.

12. Due to banks

	2021 RO'000	2020 RO'000
Syndicated Inter bank borrowings	**308,000**	325,325
Inter bank borrowings	**152,615**	126,290
Payable on demand	**274**	340
	460,889	451,955

At 31 December 2021, inter bank borrowings includes Islamic Banking Window's inter bank borrowings with other banks of RO 25.03 million (2020: RO 30.80 million). The bank has complied with the financial covenant of its borrowing facilities during the year 2021 and 2020.

At 31 December 2021, interbank borrowing with two banks individually exceeded 20% of the due to bank outstanding balance (2020 – one bank, 20%). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

13. Deposits from customers – Conventional Banking

	2021	2020
	2021 **RO'000**	2020 RO'000
Current accounts	**754,317**	612,720
Savings accounts	**485,352**	487,924
Time and certificate of deposits	**1,287,917**	1,375,215
Margin accounts	**11,036**	12,194
	2,538,622	2,488,053
Islamic customers deposits		
Current accounts	**153,436**	99,014
Savings accounts	**64,443**	53,456
Time deposits	**219,138**	220,792
	437,017	373,262

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,119.10 million as at 31 December 2021 (2020: RO 845.16 million).

14. Other liabilities

	2021 **RO'000**	2020 RO'000
Acceptances	**181,098**	104,132
Interest payable	**11,043**	11,686
Creditors and accruals	**48,895**	53,799
Negative Fair Value of Derivative (note 30)	**5,053**	10,522
Lease liabilities	**474**	671
Allowance for expected credit losses on off-balance sheet items (note 7)	**10,397**	11,652
	256,960	192,462

Allowance for expected credit losses on off-balance sheet items consists of Loan commitments and financial guarantees, and Unutilised credit limit. Refer note 7.

14(a) Employee benefit obligations

The Bank's net liability and the movement in the employee terminal benefits during the year are as follows:

	2021 **RO'000**	2020 RO'000
1 January	**2,623**	1,721
Charge for the year	**471**	1,337
Payments made during the year	**(737)**	(435)
	2,357	2,623

15 Subordinated loans

In accordance with the Central Bank of Oman's regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes.

	2021 **RO'000**	2020 RO'000
Subordinated loan - RO (i) & (ii)	**35,000**	35,000

i. In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenor of 66 months. These facilities carry a fixed rate of interest, payable half yearly and the principal being repaid on maturity.
ii. Details regarding movement in subordinated loan reserve are set out in note 18(b) in Notes to the financial statements.

16 (a) Share capital

The authorised share capital consists of 5,000,000,000 ordinary shares of RO 0.100 each (2020: 5,000,000,000 ordinary shares of RO 0.100 each).

At 31 December 2021, the issued and paid up share capital comprise 2,996,351,436 ordinary shares of RO 0.100 each (2020: 2,996,351,436 ordinary shares of RO 0.100 each).

Shareholders
The following shareholders of the Bank own 10% or more of the Bank's share capital:

	2021		2020	
	No. of shares	**%**	No. of shares	%
Dhofar International Development and Investment Company SAOG	**730,570,498**	**24.4%**	730,570,498	24.4%
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	**702,766,215**	**23.5%**	702,668,215	23.4%
Civil Service Employees' Pension Fund	**316,992,297**	**10.6%**	316,424,477	10.5%
Total	**1,750,329,010**	**58.5%**	1,749,663,190	58.3%
Others	**1,246,022,426**	**41.5%**	1,246,688,246	41.7%
	2,996,351,436	**100%**	2,996,351,436	100%

The Bank's Islamic Banking Window, "Maisarah" Islamic Banking Services has an allocated capital of RO 70 million in respect of Islamic Banking Window from the core paid up capital of the Bank as of 31 December 2021 (2020 : RO 70 million)

16 (b) Perpetual Tier 1 Capital Securities

	2021	2020
	RO'000	RO'000
Tier 1 USD Securities	**115,500**	115,500
Tier 1 RO Securities	**40,000**	40,000
	155,500	155,500

Tier 1 USD Securities

On 27 May 2015, the Bank issued Perpetual Tier 1 USD Capital Securities (the "Tier 1 USD Securities"), amounting to USD 300,000,000. This Tier 1 USD Securities is listed in Irish Stock Exchange (now traded as Euronext Dublin).

The Tier 1 USD Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 USD Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority. However, due to the prevailing Covid-19 global pandemic and market conditions at that time, the Bank was not able to exercise the option at the First Call Date.

16 (b) Perpetual Tier 1 Capital Securities *(continued)*

Tier 1 USD Securities *(continued)*

The Tier 1 USD Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. Thereafter the interest rate will be reset at five year intervals. As specified in the terms and conditions of Tier 1 USD Securities, the interest for the five year reset period is at fixed annual rate of 5.519% from the First Call Date. Interest will be payable semi-annually in arrears and treated as deduction from equity.

Tier 1 RO Securities

On 27 December 2018, the Bank issued Perpetual Tier 1 RO Capital Securities (the "Tier 1 RO Securities"), amounting to OMR 40,000,000, denominated in Riyal Omani. This Tier 1 RO Securities is listed on Muscat Stock Exchange.

The Tier 1 RO Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 RO Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 RO Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.50%. Thereafter the interest rate will be reset at five-year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity.

The Bank at its sole discretion may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 USD Securities and/or Tier 1 RO Securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its ordinary shares or any of its Other Common Equity Tier 1 Instruments or securities, ranking junior to or pari passu with the Tier 1 USD Securities and Tier 1 RO Securities unless and until it has paid one interest payment in full on the Tier 1 USD Securities and Tier 1 RO Securities. The Tier 1 USD Securities and Tier 1 RO Securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders of the Securities in certain circumstances.

These securities form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman Regulations (BM-1114).

17 Share premium

i. In 2018, the Bank issued 361,842,105 ordinary shares by way of rights issue, a share premium of RO 0.050 per share, resulting in an increase of share capital and share premium by RO 36.18 million and RO 18.09 million, respectively.

ii. In 2017, the Bank issued 216,216,216 shares by way of rights issue at a premium of RO 0.083 resulting in increase of share capital and share premium by RO 21.62 million and RO 17.95 million, respectively.

iii. In 2016, the Bank issued 200,000,000 shares by way of rights issue at a premium of RO. 0.098 resulting in increase of share capital and share premium by RO 20 million and RO 19.60 million, respectively.

iv. In 2011, the shareholders of the Bank in the annual general meeting approved the issuance of 20.2% bonus shares amounting to RO 18.49 million (184,878,143 shares of par value RO 0.100 each) from the share premium account.

v. In 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in increase of share capital and share premium by RO 17.69 million and RO 53.08 million, respectively.

vi. In 2003, pursuant to the "merger agreement", the Bank has issued 6,681,818 shares of RO 1 each to erstwhile shareholders of Majan International Bank at a premium of RO 5.4 million. This is available for distribution.

18 Reserves

(a) Legal reserve

	2021	2020
	RO'000	RO'000
1 January	**62,025**	58,966
Appropriation for the year	**2,513**	3,059
31 December	**64,538**	62,025

In accordance with the Commercial Companies Law of 2019, annual appropriations of 10% of net profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This legal reserve may be used for covering the Bank's losses and the increase of its share capital by way of issuing shares and it is not available for distribution to the shareholders as dividends except where the Bank reduces its share capital, provided that the legal reserve shall not be less than one third of the share capital after the reduction.

(b) Subordinated loans reserve

	2021	2020
	RO'000	RO'000
1 January	**21,000**	42,875
Appropriation for the year:		
Subordinated loan reserve	**7,000**	7,000
Transfer to retained earnings (refer (i) below)	**-**	(28,875)
31 December	**28,000**	21,000

Consistent with the Bank for International Settlement ("BIS") Guidelines on capital adequacy, the Bank transfers an amount equivalent to 20% of the value of the subordinated loan each year to the subordinated loan reserve until the maturity of the loan. The amount of the reserve will be transferred to retained earnings through the statement of changes in equity upon settlement of the subordinated loan.

(i) During 2020, Subordinated Loan of RO 28.875 million (USD 75 million) was repaid upon maturity.

(c) Investment revaluation reserve

The investment revaluation reserve comprises of the cumulative net change in the fair value of equity securities measured at FVOCI and the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified.

The movement in the investment revaluation reserve is analysed below:

	2021	2020
	RO,000	RO,000
1 January	**(2,370)**	(627)
Change in fair value of debt instruments	**570**	(1,270)
Change in fair value of equity instruments	**245**	(368)
Change in investment reserve on disposal	**(1,922)**	(105)
31 December	**(3,477)**	(2,370)

18 Reserves *(continued)*

(d) Special reserve

During 2013, the Bank recognised in statement of comprehensive income , recovery from a legal case of RO 26.1 million, out of which, the Bank allocated RO 18.49 million (equivalent amount that was used from share premium account for issuance of bonus shares, and which was approved by the Shareholders in the annual general meeting held on 28 March 2012) to a special reserve to strengthen its capital. Prior approval of CBO is required for any distribution from this ‘special reserve account’.

During 2020, CBO has approved to distribute Ro 1 million from the special reserve to retained earnings for utilization of corporate social responsibility donation in relation to COVID-19.

During 2021, CBO has approved to distribute RO 500K from the special reserve to retained earnings for utilization of corporate social responsibility donation in relation to Cyclone Shaheen.

(e) Special reserve for restructured loans

In accordance with Central Bank of Oman circular BSD/2018/BKUP/Bank and FLC’s/467 dated 20 June 2018, the banks are required to create a special reserve of 15% for all restructured financing after the date of circular. The amount is computed as an appropriation from net profit and is not eligible to be considered for the purpose of regulatory capital and dividend distribution. This requirement to create the special reserve at 15% on restructured financing has been dispensed on immediate effect based on Central Bank of Oman circular BSD/CB/FLC/2019/15 dated 18 November 2018.

(f) Special Impairment reserve – net of tax

CBO circular BM 1149 requires the Bank to create a reserve for the difference between provisions under CBO norms and IFRS 9 when provisions, under CBO norms are higher than IFRS 9 provisions. There is no transfer made during the year due to suspension of two track approach by CBO.

(g) Special investment revaluation reserve

From 1 January 2018, the Bank classified its portfolio of equity investments as FVOCI (elected). Certain investments were previously impaired, with the allowance for expected credit losses of RO 0.71 million charged to statement of comprehensive income . A one off adjustment was recorded on 1 January 2018 to retained earnings to account this as part of transition adjustments of the Bank under IFRS 9. This reserve will be released to retained earnings on disposal of investments.

19 Retained earnings

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

20 Net assets per share

Net assets per share are calculated by dividing net assets attributable to equity holders of the Bank at the year-end by the number of shares outstanding at 31 December as follows:

	2021	2020
Net assets (RO)	**543,019,000**	540,364,000
Number of shares outstanding at 31 December	**2,996,351,436**	2,996,351,436
Net assets per share (RO)	**0.181**	0.180

21 Interest income / Income from Islamic financing and Investments

Conventional Banking	**2021 RO'000**	2020 RO'000
Loans and advances	**149,964**	149,621
Due from banks	**5,199**	8,478
Investments	**17,969**	16,845
Total	**173,132**	174,944

	2021 RO'000	2020 RO'000
Islamic Banking		
Islamic financing receivables	**28,946**	26,983
Islamic due from banks	**73**	23
Investments	**4,569**	3,304
Total	**33,588**	30,310

22. Interest expense / Unrestricted investment account holders' share of profit and profit expense

	2021 RO'000	2020 RO'000
Conventional Banking		
Customers' deposits	**78,193**	68,988
Subordinated liabilities / mandatory convertible bonds	**2,188**	2,479
Bank borrowings	**9,992**	11,258
Total	**90,373**	82,725
Islamic Banking		
Customer Deposits	**13,380**	12,996
Islamic bank borrowings	**544**	1,893
Total	**13,924**	14,889

Included in interest expenses on deposits from customers and related parties is interest on subordinated loan against related parties and customer of RO 2.19 million (2020: RO 2.48 million). Interest expense on customer's deposits include cost of prize schemes of RO 2.3 million of Conventional banking and RO 1.15 million of Islamic Banking (2020: RO 2 million of Conventional banking and RO 0.78 million of Islamic Banking) offered by the Bank to its savings deposit holders.

22 (a) Other operating income

	2021	2020
	RO'000	RO'000
Foreign exchange	**5,088**	6,841
Investment income *22 (b)*	**2,197**	336
Miscellaneous income	**1,291**	1,587
	8,576	8,764

(b) Investment income by measurement category

Dividend income	**126**	222
Gain on disposals of investments – FVOCI	**2,025**	114
Gain on disposals of investments – FVTPL	**46**	-
	2,197	336

23 Staff and administrative costs

(a) Staff costs

	2021	2020
	RO'000	RO'000
Salaries and allowances	**33,398**	35,026
Other personnel costs	**8,388**	2,489
Social insurance contribution	**2,544**	2,604
Non-Omani employees terminal benefit	**471**	1,337
	44,801	41,456

At 31 December 2021, the Bank had 1,481 employees (2020: 1,522 employees).

(b) Administrative costs

Occupancy costs	**3,416**	3,388
Operating and administration cost	**15,858**	12,734
Impairment of goodwill	**-**	397
Others	**1,178**	435
	20,452	16,954
Total staff and administrative cost	**65,253**	58,410

24 Income tax

(a) Income tax expense:

	2021 RO'000	2020 RO'000
Current tax		
Current year charge	**2,486**	6,632
Prior years	**(75)**	3,019
	2,411	9,651
Deferred tax		
Current year	**1,976**	(1,085)
Prior years	**(55)**	(3,228)
	1,921	(4,313)
Tax expense for the year	**4,332**	5,338

Interest on Additional Tier 1 Securities is reflected in the statement of changes in equity for the years ended 31 December 2015 to 31 December 2021. The Tax Authority ("TA") has completed the assessment for the years 2015 to 2017 wherein the TA has disallowed interest on Additional Tier 1 Securities. The Bank would pursue the matter further by filing an Objection with the TA. However, on a conservative basis, the Bank has created a current tax provision against the disallowance of the interest on Additional Tier 1 Securities.

The tax rate applicable to the Bank is 15% (2020: 15%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 14.71% (2020: 14.86%).

The difference between the applicable tax rate of 15% (2020: 15%) and effective tax rate of 14.71 % (2020: 14.86 %) arises due to tax effect of income not considered to be taxable and expenses not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

(b) The reconciliation of taxation on the accounting profit before tax for the year at RO 29.45 (2020: RO 35.92 million) and the taxation charge in the financial statements is as follows:

	2021 RO'000	2020 RO'000
Profit before tax	**29,455**	35,923
Income tax as per rates mentioned above	**4,418**	5,388
Tax exempt revenue	**82**	(23)
Non-deductible expenses	**(38)**	182
Current tax Prior years	**(75)**	3,019
Deferred tax - prior years	**(55)**	(3,228)
Tax expense for the year	**4,332**	5,338

24 Income tax *(continued)*

(c) The deferred tax asset/liability has been recognised at the effective tax rate of 15% (2020 - 15%). Deferred tax asset / (liability) in the statement of financial position and the deferred tax credit / (charge) in the statement of comprehensive income relates to the tax effect of provisions, Allowance for expected credit losses on financial instruments, change in fair value of FVOCI investment and derivatives, accelerated depreciation and expenses disallowed which give rise to deferred tax asset are as follows:

Particulars	**Opening**	**Recognised in SCI**	**2021**	**Recognised in SOCE**
	RO '000		***RO '000***	
Property and equipment	**(727)**	**2**	**(725)**	**-**
Provision for legal claim	**180**	**196**	**376**	**-**
Right of Use Asset and Finance Liability	**(119)**	**67**	**(52)**	**-**
Allowance for expected credit losses on financial instruments	**5,977**	**(2,192)**	**3,785**	**-**
Investment revaluation (Non listed)	**121**	**-**	**121**	**-**
Fair value derivatives	**(96)**	**-**	**(96)**	**-**
Special impairment reserve for loan loss IFRS 9	**-**	**-**	**-**	**2,151**
investment carried at fair value through profit and loss account	**5**	**7**	**12**	**-**
Net deferred tax asset/(liability)	**5,341**	**(1,920)**	**3,420**	**2,151**

Particulars	Opening	Recognised in SCI	2020	Recognised in SOCE
	RO '000		*RO '000*	
Property and equipment	(496)	(231)	(727)	-
Allowance for expected credit losses on financial instruments	1,200	4,777	5,977	-
Investment revaluation reserve (Non listed)	121	-	121	-
Fair value derivatives	(96)	-	(96)	-
Special impairment reserve for loan loss IFRS 9	(1)	-	(1)	2,151
Provision for legal claim	375	(195)	180	-
Right of Use Asset and Finance Liability	(75)	(43)	(118)	-
investment carried at fair value through profit and loss account	-	5	5	-
Net deferred tax asset/(liability)	1,028	4,313	5,341	2,151

(d) **Status of previous year returns:**

The tax assessments of the Bank up to and including the Tax Year 2017 has been assessed and finalized by the TA. The Bank is in the process of filing an Objection with the TA for disallowance of Interest on Additional Tier 1 Securities for the tax years 2015 to 2017. The tax assessment of the Bank for the Tax Years 2018 to 2020 is yet to be taken up by the TA. The Board of Directors are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Bank's financial position as at 31 December 2021.

24 Income tax *(continued)*

***(e)* Tax liability**

The movement in the current income tax liability is summarised as follows:

	2021	2020
	RO'000	RO'000
At 1 January	**17,804**	11,355
Charge for the year	**2,411**	9,651
Payments during the year	**(10,793)**	(3,202)
At 31 December	**9,422**	17,804

25 Earnings per share (basic and diluted)

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

	2021	2020
	RO	RO
Profit for the year (RO)	**25,122,850**	30,585,000
Less : Additional Tier 1 Coupon	**(9,376,000)**	(10,144,000)
Profit for the period attributable to equity holders of the Bank	**15,746,850**	20,441,000
Weighted average number of shares outstanding during the year	**2,996,351,436**	2,996,351,436
Earnings per share basic and diluted (RO)	**0.005**	0.007

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

26 Related parties transactions

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

	2021	2020
	RO'000	RO'000
Loans and advances		
Directors, shareholders (holding 10% or more interest in the Bank)	**-**	-
Directors, shareholders (holding 20% or more interest in the Bank)	**53,728**	51,274
Other related parties*	**63,788**	24,829
	117,516	76,103
Subordinated loans		
Directors, shareholders (holding 10% or more interest in the Bank)	**-**	-
Directors, shareholders (holding 20% or more interest in the Bank)	**15,000**	15,000
Other related parties*	**14,000**	14,000
	29,000	29,000
Deposits and other accounts		
Directors, shareholders (holding 10% or more interest in the Bank)	**75,906**	203,512
Directors, shareholders (holding 20% or more interest in the Bank)	**54,117**	61,686
Other related parties*	**211,388**	159,109
	341,411	424,307
Contingent liabilities and commitments		
Directors, shareholders (holding 10% or more interest in the Bank)	**-**	-
Directors, shareholders (holding 20% or more interest in the Bank)	**3,100**	3,840
Other related parties*	**16,950**	5,186
	20,050	9,026

Interest Income earned from Loans and advances to Related Parties amounts to RO 6.089 million during the year 2021 of which RO 2.673 million pertains to Directors, shareholders (holding 20% or more interest in the Bank).

Interest Expense incurred on Deposits from Related parties amounts to RO 14.925 million during the year 2021 of which RO 7.612 million pertains to Directors, shareholders (holding 10% or more interest in the Bank), RO 1.128 million pertains to Directors, shareholders (holding 20% or more interest in the Bank).

Majority of the loans and advances given to related parties are classified as Stage 1 and attract an ECL consistent with the methodology and assumptions for all stage 1 exposures as explained in note 7.

*Balances and transactions with other related parties in the table above substantially represent the transactions and balances with shareholders holding less than 10% share capital of the Bank.

26 Related parties transactions *(continued)*

Remuneration paid to Directors	**2021**	2020
Chairman	**RO’000**	RO’000
– remuneration paid	**36**	36
– sitting fees paid	**10**	10
Other Directors		
– remuneration paid	**264**	264
– sitting fees paid	**74**	78
	384	388
Other transactions		
Rental payment to related parties	**539**	554
Insurance	**1,970**	2,663
Other transactions	**101**	71
Remuneration and fees proposed to Sharia’ Board of Islamic Banking Window	**53**	50
Key management compensation		
salaries and other short-term benefits	**1,745**	1,601

Loans to related parties carry interest at rates ranging between 2% and 7% (2020: 2% and 7.55%). Deposits from related parties attract interest at rates ranging between 0% and 4.85% (2020: 0% and 5.00%).

27 Single borrower and senior members

Single borrower are connected counterparties with credit exposure in excess of 15% of the bank's capital. Senior members include senior positions directly related to the top management of the Bank, a holding company owning 25% of more of the net worth of the Bank and their related business interests/affiliates.

	2021	2020
	RO’000	RO’000
(a) Single borrower		
Total direct exposure	**483,367**	235,966
Number of members	**2**	2
(b) Senior members		
Total exposure:		
Direct	**123,432**	99,599
Indirect	**20,050**	9,255
	143,482	108,854
Number of members	**41**	42

28 Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit and guarantees provided by the Bank to the customers are as follows:

	2021 RO'000	2020 RO'000
Letters of credit	**68,983**	67,981
Guarantees and performance bonds	**500,242**	593,510
	569,225	661,491

At 31 December 2021, letters of credit, guarantees and other commitments amounting to RO 168.18 (2020: RO 216.31 million) are counter guaranteed by other banks.

At 31 December 2021, the Irrevocable unutilised limits towards the loans, advances and financing to customer amount to RO 623.41 million (2020: 743.92 million).

Refer to note 7 and note 32 for the details on credit loss allowances and credit quality of financial assets.

(b) Capital and investment commitments

	2021	2020
Contractual commitments for property and equipment/computer software	**4,927**	9,426

(c) Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2021. Directors have made an assessment of these cases and made appropriate provisions. The recognised provision reflects the directors' best estimate of the most likely outcome. In cases where no provisions have been made, professional advice indicates that it is unlikely that any significant loss will arise.

29 Disaggregation of net fees and commission income

31 December 2021	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investment banking RO'000**	**Total RO'000**
Fee Income				
Transactional services	**7,461**	**21**	**-**	**7,482**
Trade services	**-**	**3,784**	**57**	**3,841**
Syndication and other financing related services	**782**	**4,448**	**1,244**	**6,474**
Advisory and asset management services	**-**	**109**	**-**	**109**
	8,243	**8,362**	**1,301**	**17,906**
Fee Expense				
Transactional Services	**(1,409)**	**-**	**-**	**(1,409)**
Syndication and Other Financing related services	**-**	**-**	**(1,050)**	**(1,050)**
Fee Expense	**(1,409)**	**-**	**(1,050)**	**(2,459)**
Net fee and commission income	**6,834**	**8,362**	**251**	**15,447**

29 Disaggregation of net fees and commission income (continued)

31 December 2020	Retail banking RO'000	Corporate banking RO'000	Treasury and investment banking RO'000	Total RO'000
Transactional services	4,044	-	168	4,212
Trade services	10	6,619	445	7,074
Syndication and other financing related services	759	2,553	1,570	4,882
Advisory and asset management services	-	64	261	325
	4,813	9,236	2,444	16,493
Fee Expense				
Transactional Services	(1,560)	-	-	(1,560)
Syndication and Other Financing related services	-	(30)	(1,314)	(1,344)
Fee Expense	(1,560)	(30)	(1,314)	(2,904)
Net fee and commission income	3,253	9,206	1,130	13,589

30 Derivative financial instruments

The Bank uses the following derivative instruments for non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities shown within other assets and other liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

30 Derivative financial instruments *(Continued)*

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31 December 2021 **RO 000's**

	Positive fair value	**Negative Fair Value**	**Notional amount total**	**Notional amounts by term to maturity**		
				within 3 months	**4-12 months**	**> 12 months**
Derivatives:						
Interest rate swaps	**-**	**4,310**	**63,133**	**-**	**2,272**	**60,861**
IRS customer	**4,310**	**-**	**63,133**	**-**	**2,272**	**60,861**
Forward purchase contracts	**-**	**743**	**1,479,094**	**777,403**	**581,154**	**120,537**
Forward sales contracts	**2,291**	**-**	**1,474,966**	**774,822**	**580,794**	**119,350**
Total	**6,601**	**5,053**	**3,080,326**	**1,552,225**	**1,166,492**	**361,609**

31 December 2020 **RO 000's**

	Positive fair value	**Negative Fair Value**	**Notional amount total**	**Notional amounts by term to maturity**		
				within 3 months	**4-12 months**	**> 12 months**
Derivatives:						
Interest rate swaps	-	9,615	185,385	-	-	185,385
IRS customer	9,615	-	185,385	-	-	185,385
Forward purchase contracts	4,749	-	1,029,121	478,011	460,750	90,360
Forward sales contracts	-	907	1,022,345	476,818	456,977	88,550
Total	14,364	10,522	2,422,236	954,829	917,727	549,680

Interest rate swaps entered by the Bank are back to back arrangements and therefore the amount of positive and negative fair value is equal.

30 Derivative financial instruments *(Continued)*

The following table indicates the positive fair values of derivatives (net) associated with derivatives that are recognised in the statement of comprehensive income.

	Assets		Liabilities	
	2021	2020	**2021**	2020
	RO'000	RO'000	**RO'000**	RO'000
Expected cash flows	**1,547**	3,842	**1,547**	3,842

31 Fair value information

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position (Level 3).

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**	**Cost**
	RO '000	**RO '000**	**RO '000**	**RO '000**	**RO '000**
Financial assets					
Investments at FVOCI	**118,973**	**-**	**517**	**119,490**	**122,967**
Investments at FVTPL	**1,174**	**-**	**1,649**	**2,823**	**3,155**
Derivative financial instruments					
Forward foreign exchange contracts	**-**	**2,291**	**-**	**2,291**	**-**
IRS customer	**-**	**4,310**	**-**	**4,310**	**-**
Total	**120,147**	**6,601**	**2,166**	**128,914**	**126,122**
Financial liabilities					
Derivative financial instruments					
Forward foreign exchange contracts	**-**	**4,310**	**-**	**4,310**	**-**
Interest rate swaps	**-**	**743**	**-**	**743**	**-**
Total	**-**	**5,053**	**-**	**5,053**	**-**

31 Fair value information *(Continued)*

At 31 December 2020	**Level 1 RO '000**	**Level 2 RO '000**	**Level 3 RO '000**	**Total RO '000**	**Cost RO '000**
Financial assets					
Investments at FVOCI	117,760	-	573	118,333	118,624
Investments at FVTPL	2,423	-	1,697	4,120	4,154
Derivative financial instruments					
Forward foreign exchange contracts	-	4,749	-	4,749	-
IRS customer		9,615		9,615	-
Total	120,183	14,364	2,270	136,817	122,778
Financial liabilities					
Derivative financial instruments					
Forward foreign exchange contracts	-	907	-	907	-
Interest rate swaps	-	9,165	-	9,165	-
Total	-	10,072	-	10,072	-

The impact of change in estimates used in measurement of fair value of level 3 securities is not material to the financial statements. The following table demonstrates the movement of the Bank’s level 3 investments:

Level 3 movement – 31 December 2021

	FVPL RO 000’s	**FVOCI RO 000’s**	2020 RO 000’s
At 1 January	**1,697**	**573**	**2,270**
Total gains	**127**	**52**	**179**
Purchases	**5**	**-**	**5**
Sales	**(288)**	**-**	**(288)**
Transfer from level 3	**-**	**-**	**-**
At 31 December	**1,541**	**625**	**2,166**

Level 3 movement – 31 December 2020

	FVPL RO 000’s	**FVOCI RO 000’s**	2020 RO 000’s
At 1 January	1,731	721	2,452
Total losses	(34)	(148)	(182)
Purchases	-	-	-
Transfer from level 3	-	-	-
At 31 December	1,697	573	2,270

31 Fair value information *(Continued)*

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index process and expected price volatilities and correlations.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Transfer between level 1 and level 2

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

32 Financial risk management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. The risk management division of the Bank is an independent and dedicated unit reporting directly to the Board Risk Committee (“BRC”). The division’s primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the Bank’s committees are among the factors which reflect the independence of the Risk Management Divisions (RMD) working and the key role it plays within the Bank.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors (“the Board”) for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. The Board Risk Committee is responsible for reviewing and recommending to the full Board for approval of all risk policies and procedures. BRC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meeting.

A. Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the loans, advances and Islamic financing, amounts due from banks and investment in debt securities. Bank has an independent credit risk management function which identifies, assess and manages the credit risk at an individual or entity level. All the Corporate credit proposals are assessed independently by RMD before they are considered by the appropriate approving authorities. Bank has defined various levels of authorities for credit approval with Board Executive Committee being the final credit approving authority of the Bank and mainly responsible for approving all credit proposals beyond the authority level set for the management. This committee is also the final authority for approving investments beyond the set authority of the management. The Credit Approval Committee (“CAC”) is the credit decision making body at the management level which is empowered to consider all credit related issues up to certain limit.

32 Financial risk management (continued)

A. Credit Risk (continued)

Bank has established robust credit risk management policies and procedures and a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio and monitors credit concentration limits.

Maximum counterparty/Bank exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance, prior CBO approval is obtained. Individual country limits using leading external rating agencies have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail lending is strictly in accordance with the CBO guidelines.

Impact of COVID-19

The coronavirus pandemic continues to cause disruption to business and economic activities throughout various geographies around the globe. While the full impact is yet to be determined, it's expected that the adverse impact is likely to continue from the virus' knock-on effects. The pandemic has slowed down trade and economic activities and the impact can be minimised only with the assistance of government support. Accordingly, the fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

The Government of Oman and Central Bank of Oman have taken slew of measures to control the pandemic and improve the economic conditions. The Bank is closely monitoring the situation and has undertaken various initiatives to manage the potential business disruption the COVID outbreak may have on its operations and financial performance. This entails activating business continuity plan by enabling workforce to work from home using the Bank's agile technological infrastructure, reviewing counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, wherever required. The set-up of robust digital technology supported in maintaining customer service and experience during these trying times.

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration have been given both to the effects of COVID (including various variants of virus) and the government support measures being undertaken.

In response to pandemic situation, CBO issued the guidelines in March 2020 to provide the necessary support to affected borrowers particularly Small and Medium Enterprises (SME), wherein CBO allowed deferment of loan instalments/ interest/ profit for affected borrowers and the availability of the deferment, without adversely affecting the risk classification of such loans is available till 31 December 2021. In line with the CBO guidelines, Bank considered deferment for all eligible borrower (who have requested for deferment), as short-term liquidity support to address the borrower's potential cash flow issues. The deferrals have been allowed to only customers whose cash flows have been impacted by the COVID-19 situation and backed by specific requests from them. For such cases, every review includes an assessment on whether the strain on cash flows observed are on account of the COVID impact or otherwise and in case these are identified to be otherwise, the accounts are suitably staged. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9.

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

The Bank continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk. The outstanding of the loans, who have applied under deferment as at 31 December 2021 amounts to RO 670.9 million and constitutes 19.09% of the total loans and advances. Bank has also considered additional ECL to address significant increase in credit risk in certain accounts based on its judgment and experience. Overall, total ECL amount has increased from OMR 132.31 million as at 31 December 2020 to OMR 150.53 million as at 31 December 2021. Thus ECL has increased by OMR 18.22 million during 2021.

Bank has given specific consideration to the relevant impact of COVID on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in staging downgrade of certain exposures and recognition of additional ECL provisions and allowance for expected credit losses as disclosed in note 7 to the financial statements. Further, the monitoring of overdue and SICR have been enhanced by reviewing all exceptional reports and undertaking quarterly reviews in respect of accounts in risk grade of 5 to 8. Additional exposures are undertaken on selective basis duly supported by the cash flows that can be firmly established and the requirements are considered with proper monitoring mechanism.

Bank estimates its expected credit losses (ECLs) considering the macroeconomic indicators and ECLs were estimated based on a range of forecasts for economic conditions as at that date and considering that the situation is fast evolving, the Bank has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. The macro-economic variables for estimation of forward looking factor in ECL were identified based on their level and direction of association with asset quality ratio of Oman Banking sector. The forward-looking factor (called as Cyclicality Index) used is determined from the observed historical macro-economic factors. The cyclicality index is used to forecast expected point-in-time probability of defaults for all the portfolio for which ECL is estimated and correlation is observed between the Cyclicality index and macro-economic factors. The forward-looking macro-economic factors were revised in first half of year 2021, in line with the revision of projections by the IMF. The revision made in the macro-economic indicators during last year is provided as under:

	Real GDP growth (%)			Oil revenue (%GDP)	
	As at 31 December 2020	**As at 31 December 2021**		**As at 31 December 2020**	**As at 31 December 2021**
Present	0.50%	-4.30%		29.40%	23.80%
Year 1	-10.00%	1.80%		21.72%	30.29%
Year 2	-0.50%	7.40%		24.94%	33.13%
Year 3	11.00%	2.70%		24.27%	32.94%

The ECL has been calculated as probability weighted figure for three scenarios i.e. Base case, Upside and Downside with 50%, 25% and 25% weightings respectively. No change has been considered in the weightage, as the situation is fast evolving and Bank has already considered the conservative estimates of macro-economic indicators as base case, as highlighted in the above table. As per the revised estimates provided by different agencies, the real GDP growth projections have improved.

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

The Bank's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its usual model refinement exercise. Other than changes in the macro-economic indicators, Bank has not considered any other change in ECL model. The Bank has accounted for ECL of approximately OMR 24.65 million during 2021. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. In order to meet any additional challenge, Bank has also considered additional customer specific overlays, based on the management experience and close monitoring of the customers with significant increase in credit risk.

The total expected credit loss as at 31 December 2021 stood at OMR 150.53 million as compared to OMR 132.31 million as at 31 December 2020. The total ECL has increased by OMR 18.22, which is 13.7% more than the last year position. Out of OMR 150.53 million, Bank is maintaining ECL of OMR 92.24 million (2020: OMR 76.93 million) in Corporate portfolio, OMR 8.19 million (2020: OMR 7.64 million) in SME portfolio and OMR 43.94 million (2020: 42.86 million) in Retail portfolio. Since, the models may not always capture all the stressed events, it is therefore prudent to incur additional ECL based on the management experience and current uncertain situation in the economy. Accordingly, Bank has considered additional customer specific ECL of OMR 14.23 million (2020: OMR 12.35 million) and the same is included in the total ECL of OMR 150.53 million.

Other receivables of the Bank are generally short term in nature and with history of insignificant default and hence ECL impact from this balance considered to be immaterial.

Sensitivity of ECL to future economic conditions

Bank is currently using three scenarios viz., Base case, Upside and Downside and weightage of 50%, 25% and 25% respectively is applied to estimation the ECL. The below table provides the impact on ECL on major assets, if weight of 100% is applied to Base case and Downside scenarios.

2021

Amount RO 000's

Scenarios	ECL for				Total
	Loans and advances (RO 000's)	Islamic financing receivables (RO 000's)	Investment securities carried at amortised cost (RO 000's)	Other Portfolio (RO 000's)	(RO 000's)
Scenarios currently used by Bank	**126,879**	**10,602**	**247**	**12,805**	**150,533**
100% Base case scenario	**133,016**	**10,154**	**255**	**9,961**	**153,386**
100% Downside scenario	**150,753**	**12,585**	**397**	**14,191**	**177,926**

2020

Amount RO 000's

Scenarios	ECL for				Total
	Loans and advances (RO 000's)	Islamic financing receivables (RO 000's)	Investment securities carried at amortised cost (RO 000's)	Other Portfolio (RO 000's)	(RO 000's)
Scenarios currently used by Bank	**111,035**	**8,533**	**238**	**12,506**	**132,312**
100% Base case scenario	**113,510**	**8,911**	**258**	**12,609**	**135,288**
100% Downside scenario	**122,356**	**10,156**	**330**	**12,964**	**145,806**

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

The above table reveals that in case of 100% downside scenario, the ECL may increase by OMR 27.39 million from the current position.

Accounting for modification loss

In case of Corporate customers, the Bank plans to add the simple interest accrued during the deferral period to the principal outstanding and either extend the original maturity period of the loan or increase the instalments at the end of the Deferment Period. The Bank has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures did not resulted in de-recognition of financial assets.

However, this resulted in the Bank recognizing modification loss of RO 2.8 million during the year ended 31 December 2021, which was presented as part of expected credit losses.

Analysis on the deferment benefits used by the Borrowers
The following table contains an analysis of all the accounts which are availing deferment benefits and outstanding as on 31 December 2021

A: Segment-wise analysis of Retail borrowers benefiting from deferred payments

2021 **RO 000's**

Customer Type	Total Deferred amount	ECL
Retail category 1	6	0.21
Retail category 2	56	2.00
Total	**62**	**2.21**

2020 **RO 000's**

Customer Type	Total Deferred amount	ECL
Retail category 1	521	22
Retail category 2	4,691	199
Total	**5,212**	**221**

*Category 1 are customers with regular salary
** Category 2 are customers with irregular salary

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

Sector-wise analysis of corporate borrowers benefiting from deferred payments:
2021

	RO ('000)	Construction	Services	Manufacturing	Transport & Communication	All others	Total
Stage 1	**Outstanding**	189,593	29,158	17,553	30	78,100	**314,434**
	Deferred Principal	19,703	357	7,172	3	26,558	**53,793**
	Interest/ Deferred Profit	8,159	1,101	704	1	4,830	**14,795**
	ECL	5,214	441	93	1	704	**6,453**
Stage 2	**Outstanding**	90,419	79,166	29,452	1,055	135,067	**335,159**
	Deferred Principal	29,879	21,109	20,207	1,012	17,010	**89,217**
	Interest/ Deferred Profit	4,869	5,301	781	0	10,576	**21,527**
	ECL	4,091	7,019	980	46	9,871	**22,007**
Stage 3	**Outstanding**	9,621	188	2,351	0	3,447	**15,607**
	Deferred Principal	7,976	13	916	0	1,508	**10,413**
	Interest/ Deferred Profit	260	3	130	0	99	**492**
	ECL	3,800	10	1,030	-	340	**5,180**
Total	**Outstanding**	**289,633**	**108,512**	**49,356**	**1,085**	**216,614**	**665,200**
	Deferred Principal	**57,558**	**21,479**	**28,295**	**1,015**	**45,076**	**153,423**
	Interest/ Deferred Profit	**13,288**	**6,405**	**1,615**	**1**	**15,505**	**36,814**
	ECL	**13,105**	**7,470**	**2,103**	**47**	**10,915**	**33,640**

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

2020:

	RO ('000)	Construction	Services	Manufacturing	Transport & Communication	All others	Total
Stage 1	Outstanding	281,657	51,172	42,654	1,756	75,272	**452,511**
	Deferred Amount	24,979	4,074	11,404	676	16,254	**57,387**
	Interest / Deferred Profit	6,196	1,951	734	58	1,676	**10,615**
	ECL	2,693	366	951	6	548	**4,564**
Stage 2	Outstanding	126,180	88,243	51,122	25,921	184,161	**475,627**
	Deferred Amount	47,938	14,429	31,356	7,172	22,529	**123,424**
	Interest / Deferred Profit	3,834	1,551	532	36	11,643	**17,596**
	ECL	12,710	5,751	1,359	587	15,329	**35,736**
Stage 3	Outstanding	2,092	66	-	-	847	**3,005**
	Deferred Amount	722	40	-	-	8	**770**
	Interest / Deferred Profit	26	3	-	-	28	**57**
	ECL	694	29	-	-	469	**1,192**
Total	Outstanding	**409,929**	**139,481**	**93,776**	**27,677**	**260,280**	**931,143**
	Deferred Amount	**73,639**	**18,543**	**42,760**	**7,848**	**38,791**	**181,581**
	Interest / Deferred Profit	**10,056**	**3,505**	**1,266**	**94**	**13,347**	**28,268**
	ECL	**16,097**	**6,146**	**2,310**	**593**	**16,346**	**41,492**

Impact on the Capital Adequacy:

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. As per the Prudential filter, the Tier II capital of the Bank will comprise of Stage 1 ECL plus portion of Stage 2 ECL. Such portion shall be estimated as under:

- The Stage 2 ECL amount as on 31 December 2019 is considered “Base Year Amount” and will continue to get earlier phase out arrangement (i.e. 40% for 2020 and 20% for 2021) and
- The incremental ECL (i.e. Stage 2 ECL at a respective reporting date minus stage 2 ECL as at 31 December 2019) may be considered for Tier 2 capital subject to incremental reduction of 20% ECL every year (80% in 2021).

The Tier II capital has improved by 0.08% (2020: 0.09%) due to application of above prudential filter.

Although above measures are not exhaustive and may not fully counteract the impact of COVID pandemic in the short run, they will mitigate the long-term negative impact of the pandemic. In response to this crisis, the Bank will continue to monitor and respond to all solvency and liquidity 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.

Liquidity and Market Risk:

CBO also issued guidelines to support liquidity in Oman banking sector, which inter-alia include reducing the interest rate on repo operations by 75 basis points, increasing the tenor of repo operations up to a maximum of three months, decreasing

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

Liquidity and Market Risk *(continued):*

interest rate on discounting of government treasury bills by 100 basis points, reducing the interest rate on foreign currency swap operations by 50 basis points and increasing the tenor of swap facility up to a maximum period of six months. As at 31 December 2021, Bank is not availing any such liquidity support and the liquidity and funding position of the Bank remain well placed to absorb and manage the impacts of this disruption.

On 27 May 2015, the Bank issued Perpetual Tier 1 USD Capital Securities (the “Tier 1 USD Securities”), amounting to USD 300 million. The Tier 1 USD Securities are listed on the Euronext Dublin exchange (formerly known as “Irish Stock Exchange”). The Tier 1 USD Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 USD Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on the “First Call Date” (i.e. 27 May 2020) or on any interest payment date thereafter ie 27 May or 27 November every year) subject to the prior consent of the regulatory authority.

There is no material impact on the valuation of the equity and debt investments.

1. Credit Exposure

The following table sets out the Credit Exposure to customers of the Bank:

(i) Geographical concentrations

	Assets			**Liabilities**		
	Gross loans, advances and financing to banks RO’000	**Gross loans, advances and financing to customers RO’000**	**Investment securities RO’000**	**Deposits from customers RO’000**	**Due to banks RO’000**	**Contingent liabilities RO’000**
31 December 2021						
Sultanate of Oman	**42,725**	**3,513,571**	**444,894**	**2,975,312**	**30,074**	**470,933**
Other GCC countries	**42,980**	**-**	**717**	**175**	**413,490**	**47,235**
Europe and North America	**6,081**	**251**	**-**	**-**	**9,625**	**29,827**
Africa and Asia	**34,462**	**-**	**852**	**152**	**7,700**	**21,230**
	126,248	**3,513,822**	**446,463**	**2,975,639**	**460,889**	**569,225**

Loan commitment of RO 623.41 million as at 31 December 2021 (31 December 2020: RO 743.92 million) arises from the customers in the Sultanate of Oman.

	Assets			Liabilities		
	Gross loans, advances and financing to banks RO’000	Gross loans, advances and financing to customers RO’000	Investment securities RO’000	Deposits from customers RO’000	Due to banks RO’000	Contingent liabilities RO’000
31 December 2020						
Sultanate of Oman	60,050	3,409,665	455,229	2,859,807	16,679	564,923
Other GCC countries	11,507	-	2,105	1,224	403,706	35,450
Europe and North America	21,081	110	-	4	31,570	44,713
Africa and Asia	29,338	-	721	280	-	16,405
	121,976	3,409,775	458,055	2,861,315	451,955	661,491

Other assets and liabilities are predominately concentrated in the Sultanate of Oman.

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(ii) Customer concentrations

	Assets			Liabilities		
	Gross loans, Advances and financing to banks RO'000	**Gross Loans, Advances and financing to customers RO'000**	**Investment Securities RO'000**	**Deposits from customers RO'000**	**Due to banks RO'000**	**Contingent liabilities RO'000**
31 December 2021						
Personal	**-**	**1,260,349**	**-**	**801,147**	**-**	**1,674**
Corporate	**126,248**	**1,804,372**	**41,505**	**1,055,394**	**460,889**	**567,308**
Government	**-**	**449,101**	**404,958**	**1,119,098**	**-**	**243**
	126,248	**3,513,822**	**446,463**	**2,975,639**	**460,889**	**569,225**
31 December 2020						
Personal	-	1,259,193	-	704,019	-	173
Corporate	121,976	1,746,684	34,566	1,312,132	451,955	660,989
Government	-	403,898	423,489	845,164	-	329
	121,976	3,409,775	458,055	2,861,315	451,955	661,491

Loan commitment of RO 623.41 million as at 31 December 2021 (31 December 2020: RO 743.92 million) substantially arises from the corporate customers.

(iii) Economic sector concentrations

	Assets	Liabilities		
	Gross loans, advances and financing to customers RO'000	**Deposits from customers RO'000**	**Contingent Liabilities RO'000**	**Loan Commitment**
31 December 2021				
Personal	**1,260,394**	**1,249,051**	**1,674**	**10,989**
International trade	**129,017**	**187,012**	**32,167**	**1,244**
Construction	**443,719**	**96,187**	**222,583**	**269,178**
Manufacturing	**285,761**	**77,770**	**28,105**	**120,326**
Wholesale and retail trade	**116,434**	**20,580**	**18,083**	**82,797**
Communication and utilities	**257,618**	**88,252**	**22,081**	**42,420**
Financial services	**189,264**	**43,611**	**211,645**	**26,129**
Government	**147,324**	**843,181**	**1,277**	**26,803**
Other services	**371,629**	**190,556**	**20,364**	**40,798**
Others	**312,662**	**179,439**	**11,246**	**2,726**
	3,513,822	**2,975,639**	**569,225**	**623,410**

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(iii) Economic sector concentrations (continued)

	Assets	Liabilities		
	Gross loans, advances and financing to customers RO'000	Deposits from customers RO'000	Contingent Liabilities RO'000	Loan Commitments
31 December 2020				
Personal	1,259,193	704,019	173	13,114
International trade	115,003	167,727	41,072	1,484
Construction	505,372	118,168	263,486	321,212
Manufacturing	167,666	68,610	42,754	143,586
Wholesale and retail trade	37,089	33,483	22,224	98,802
Communication and utilities	199,762	29,134	31,568	50,621
Financial services	186,129	77,006	217,021	31,180
Government	403,898	845,164	329	31,985
Other services	230,244	131,416	33,901	48,684
Others	305,419	686,588	8,963	3,252
	3,409,775	2,861,315	661,491	743,920

(iv) Gross credit exposure

	Total gross exposure		**Monthly average gross exposure**	
	2021 RO’000	2020 RO’000	**2021 RO’000**	2020 RO’000
Overdrafts	**113,544**	123,762	**121,263**	131,749
Loans	**2,769,153**	2,670,470	**2,752,245**	2,592,904
Loans against trust receipts	**91,730**	83,750	**91,520**	89,101
Bills discounted	**29,160**	39,089	**36,011**	41,180
Advance against credit cards	**8,144**	8,521	**8,126**	8,784
Islamic Banking Window financing	**502,091**	484,183	**496,289**	476,424
Total	**3,513,822**	3,409,775	**3,505,454**	3,340,142

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(v) Geographical distribution of funded exposures:

31 December 2021	**Sultanate of Oman RO'000**	**Other countries RO'000**	**Total RO'000**
Overdrafts	**113,544**	**-**	**113,544**
Loans	**2,769,153**	**-**	**2,769,153**
Loans against trust receipts	**91,730**	**-**	**91,730**
Advance against credit cards	**8,144**	**-**	**8,144**
Bills discounted and advances against receivables	**28,909**	**251**	**29,160**
Islamic Banking Window financing	**502,091**	**-**	**502,091**
	3,513,571	**251**	**3,513,822**
31 December 2020			
Overdrafts	123,762	-	123,762
Loans	2,670,470	-	2,670,470
Loans against trust receipts	83,750	-	83,750
Bills discounted and advances against receivables	38,979	110	39,089
Advance against credit cards	8,521	-	8,521
Islamic Banking Window financing	484,183	-	484,183
	3,409,665	110	3,409,775

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

31 December 2021	**Overdrafts RO'000**	**Loans including Islamic financing RO'000**	**Bills discounted RO'000**	**Others RO'000**	**Total RO'000**	**Contingent liabilities RO'000**	**Loan commitments RO'000**
Import trade	**8,418**	**95,700**	**-**	**16,798**	**120,916**	**26,763**	**-**
Export trade	**221**	**7,872**	**-**	**7**	**8,100**	**5,404**	**1,472**
Wholesale/retail trade	**4,463**	**109,284**	**-**	**2,687**	**116,434**	**18,083**	**83,538**
Mining and quarrying	**1,435**	**105,060**	**-**	**12**	**106,507**	**676**	**33,580**
Construction	**43,883**	**342,719**	**-**	**57,116**	**443,718**	**222,583**	**269,080**
Manufacturing	**18,271**	**233,847**	**880**	**32,762**	**285,760**	**28,105**	**86,687**
Electricity, gas and water	**1,099**	**196,113**	**-**	**416**	**197,628**	**17,197**	**41,227**
Transport and Communication	**1,264**	**58,207**	**-**	**518**	**59,989**	**4,884**	**1,178**
Financial institutions	**2,314**	**186,079**	**871**	**-**	**189,264**	**211,645**	**26,119**
Services	**20,083**	**347,660**	**122**	**3,763**	**371,628**	**20,364**	**40,783**
Personal loans	**1,425**	**1,075,613**	**-**	**7,805**	**1,084,843**	**1,674**	**10,228**
Agriculture and allied Activities	**3,812**	**1,097**	**-**	**4,828**	**9,737**	**5,649**	**1,590**
Government	**-**	**322,858**	**-**	**18**	**322,876**	**1,277**	**26,794**
Non-resident lending	**-**	**-**	**-**	**16,798**	**16,798**	**-**	**-**
Others	**6,856**	**189,134**	**-**	**429**	**196,419**	**4,921**	**1,135**
	113,544	**3,271,243**	**1,873**	**143,957**	**3,513,822**	**569,225**	**623,410**

32 Financial risk management *(continued)*

A. Credit risk *(Continued)*

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

	Overdrafts RO'000	Loans including Islamic financing RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposure RO'000	Loan commitments RO'000
31 December 2020							
Import trade	9,466	89,563	-	8,142	107,171	35,723	1,756
Export trade	219	7,606	-	7	7,832	5,349	99,686
Wholesale/retail trade	3,976	30,585	-	2,528	37,089	22,224	40,072
Mining and quarrying	1,528	29,600	-	9	31,137	671	
							321,095
Construction	49,818	393,608	3,169	58,777	505,372	263,486	
							103,445
Manufacturing	17,804	111,072	1,302	37,488	167,666	42,754	49,196
Electricity, gas and water	1,104	194,872	-	419	196,395	25,646	1,406
Transport and Communication	983	2,070	-	314	3,367	5,922	31,169
Financial institutions	1,668	184,070	281	-	186,019	217,021	48,666
Services	17,305	210,153	-	2,786	230,244	33,901	12,205
Personal loans	1,767	1,249,166	-	8,260	1,259,193	173	1,898
Agriculture and allied Activities	3,888	8,848	-	2,620	15,356	1,079	31,973
Government	-	403,891	-	7	403,898	329	-
Non-resident lending	-	-	110	-	110	-	1,354
Others	14,236	239,549	-	5,141	258,926	7,213	1,756
	123,762	3,154,653	4,862	126,498	3,409,775	661,491	743,920

(vii) Maximum exposure to credit risk (net of impairment) without consideration of collateral held:

	2021 RO' 000	2020 RO' 000
Central Bank balances	**221,495**	179,742
Due from Banks	**125,098**	121,522
Sovereign	**404,041**	393,700
Investment Securities at amortized Cost	**917**	917
Investment Securities at FVOCI	**35,945**	58,227
Loans and advances	**3,376,341**	3,290,207
Other receivables	**12,543**	14,437
Accrued Interest	**44,941**	41,726
Acceptances	**180,183**	103,776
Total funded net exposure	**4,401,504**	4,204,254
Off-balance sheet items		
Loan commitments	**620,596**	740,961
Letter of credit and guarantees and performance bonds	**561,637**	631,230
	5,583,737	5,576,445

As at 31 December 2021, Bank has total gross impaired loans of RO 179.65 million (2020: RO 154.57 million) which includes interest reserved of RO 30.12 (2020: RO 24.72) million against principal outstanding of RO 149.53 (2020: RO 129.85) million expected credit losses of RO 82.54 million (2020: RO 68.23) million have been carried.

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(viii) Credit Quality Analysis

The financial assets have been segregated into various portfolios like exposure to Banks, Sovereign, Wholesale Banking and Retail customers. Exposure to Retail customer includes personal loans, housing loans and credit cards. Exposure to Wholesale Banking customer includes exposure other than retail and bank exposure.

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 3.3. The following table provides the exposure to financial assets measured at amortized cost & FVOCI. Exposure to financial asset includes outstanding as at 31 December 2021 including loan commitment and financial guarantees:

	Stage 1 RO'000	**Stage 2 RO'000**	**Stage 3 RO'000**	**Total RO'000**
31 December 2021				
Exposure				
Banks	**539,930**	**390**	**-**	**540,320**
Sovereigns	**404,041**	**-**	**-**	**404,041**
Wholesale banking	**2,302,494**	**1,026,136**	**126,457**	**3,455,087**
Retail banking	**1,211,798**	**12,974**	**60,398**	**1,285,170**
Investments	**37,109**	**-**	**-**	**37,109**
Total	**4,495,372**	**1,039,500**	**186,855**	**5,721,727**
Provision for expected credit losses	**27,645**	**40,353**	**82,535**	**150,533**

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 3.3. The following table provides the exposure to non-trading financial assets measured at amortized cost & FVOCI. Exposure to financial asset includes outstanding as at 31 December 2020 including loan commitment and financial guarantees:

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
31 December 2020				
Exposure				
Banks	418,316	401	-	418,717
Sovereigns	393,700	-	-	393,700
Wholesale banking	2,533,164	954,099	92,478	3,579,741
Retail banking	1,195,372	4,634	64,698	1,264,704
Investments	56,959	-	-	56,959
Total	4,597,511	959,134	157,176	5,713,821
Provision for expected credit losses	23,368	40,715	68,229	132,312

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(ix) Inputs, assumptions and techniques used for estimating impairment

a. Significant increase in credit risk (SICR)

The assessment of SICR since origination of a financial asset considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking information. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

For retail exposures, significant increase in credit risk is more objective and is estimated at account level. The assessment is done using days past due information as well change in the rating grade of the borrower. The process of identifying the significant increase in credit risk has been automated and based on the days past due or deterioration in the rating grade of the borrower significant increase in credit risk is assessed. For non-retail exposures, the Bank uses both quantitative and qualitative criteria. Under quantitative criteria, Bank uses the days past due parameter or change in the rating grade to assess significant increase in credit risk. Under qualitative criteria, Bank uses various criteria like change in value or quality of collateral, modification of terms including extension of moratorium, deferment of payment, waiver of covenants (restructure), frequent change in senior management, deferment / delay in commencement of commercial operations etc. to assess the significant increase in credit risk.

Incorporation of forward looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 25% probability of occurring. External information considered includes economic data and forecasts published by monetary authorities and selected private-sector forecasters. A comprehensive review is performed at least annually on the design of the scenarios by the Bank's senior management.

b. Economic variable assumptions

The Bank uses the macroeconomic forecast to convert the Through the Cycle (TTC) PD into Point in Time (PIT) PD. Real GDP growth rate and Oil Revenue to GDP are considered for establishing the relationship with historical non-performing loans (NPLs) data of the banking system, as they were observed to be more statistically significant parameters reflecting the state of economy. The forecast of macro-economic indicators are considered for next 3 years with time lag of 1 year. The macroeconomic indicators used as at 31 December 2021 including the projections used is presented as under:

31 December 2021

Real GDP growth (%)	Present	-4.30%	**Oil revenue (%GDP)**	Present	23.80%
	Year 1 Projection	1.80%		Year 1 Projection	30.29%
	Year 2 Projection	7.40%		Year 2 Projection	33.13%
	Year 3 Projection	2.70%		Year 3 Projection	32.94%

Predicted relationships between the macroeconomic indicators, default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 23 years.

31 December 2020

Real GDP growth (%)	Present	0.50%	**Oil revenue (%GDP)**	Present	29.40%
	Year 1 Projection	-10.00%		Year 1 Projection	21.72%
	Year 2 Projection	-0.50%		Year 2 Projection	24.94%
	Year 3 Projection	11.00%		Year 3 Projection	24.27%

32 Financial risk management *(continued)*

(ix) Inputs, assumptions and techniques used for estimating impairment *(continued)*

b. Economic variable assumptions *(continued)*

The following tables shows estimate of the ECL on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2021, with 100% probability of happening each scenario.

Sensitivity of ECL estimates on non-impaired loans (excluding ECL on unutilised loans and interest receivables)	**ECL (RO million)**	**Impact on ECL due to Sensitivity (RO million)**
Scenario weighted ECL under IFRS 9 (Actual Estimate)**	151	-
Sensitivity:		
ECL if only Upside case happens - 100% probability	122	(29)
ECL if only Base case happens - 100% probability	153	3
ECL if only Downside case happens - 100% probability	178	27

The following tables shows estimate of the ECL on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2020, with 100% probability of happening each scenario.

Sensitivity of ECL estimates on non-impaired loans (excluding ECL on unutilised loans and interest receivables)	**ECL (RO million)**	**Impact on ECL due to Sensitivity (RO million)**
Scenario weighted ECL under IFRS 9 (Actual Estimate)**	132	-
Sensitivity:		
ECL if only Upside case happens - 100% probability	112	(20)
ECL if only Base case happens - 100% probability	135	3
ECL if only Downside case happens - 100% probability	146	14

** for computation of ECL (i.e. actual estimates), Bank considers three scenario viz. base case, upside case and downside case with weightage of 50%, 25% & 25% respectively.

c. Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Retail portfolios
(i) GDP, given the significant impact it has on mortgage collateral valuations; and

(ii) Oil price index, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Wholesale portfolios
(i) GDP, given the significant impact on companies' performance and collateral valuations; and

(ii) Oil Price Index, given its impact on companies' likelihood of default.

32 Financial risk management *(continued)*

Loss Allowance

The following table presents the ECL for non-performing loans i.e. Exposure under Stage 3.

	No. of borrowers	**Exposure RO'000**	**Reserved interest RO'000**	**Net exposure RO'000**	**ECL RO'000**	**% of ECL RO'000**
31 December 2021						
Wholesale banking	**750**	**126,457**	**17,981**	**108,426**	**49,667**	**45.81%**
Retail banking	**7,005**	**60,398**	**12,136**	**48,258**	**32,868**	**68.11%**
Total	**7,755**	**186,855**	**30,117**	**156,684**	**82,535**	**52.68%**
31 December 2020						
Wholesale banking	407	93,674	12,211	81,463	36,346	45.27%
Retail banking	3,708	64,042	12,508	51,534	31,882	61.86%
Total	4,115	157,716	24,719	132,997	68,228	51.76%

(x) Credit Quality

Credit risk grading

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. Bank has adopted a risk rating framework having 8 performing loan grades (including special mention) and 3 non-performing loan grades. The Bank's internal Risk Rating (RR) risk rates a customer and to associate a default probability to each rating grade. The ratings assist studying the distribution of borrowers, grade wise exposures, transition of credit risk ratings over time, grade wise defaults, Non-Performing Loans (NPL) etc. Risk appetite is also set in terms of how much exposure the Bank expects in various grade bands. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

'High Grade' exposures includes the risk rate of 1-3 which includes the exposures with good to excellent business credit quality, good to exceptional capacity for timely fulfilment of the financial obligation and negligible or low probability of default and/or low levels of expected loss.

'Standard Grade' exposures includes the risk rate of 4-5 which includes the exposures of acceptable to fair credit quality, satisfactory capacity for timely fulfilment of the financial obligation. These exposures carry average to marginally acceptable risk.

'Satisfactory Grade' exposures includes the risk rate of 6-8 which includes the exposures with below or weak acceptable credit quality. The exposures carry high risk, caution and special mention category. Projected repayment capacity is strained and prospects may deteriorate at some future date. These reflect either weak operating environment or operations reflect weakness.

'Non-performing' exposures have been assessed as impaired and includes the risk rate of 9 to 11. These also include retail accounts that are delinquent by more than 90 days, unless individually they have been assessed as not impaired; and renegotiated loans that have met the requirements to be disclosed as impaired and have not yet met the criteria to be returned to the unimpaired portfolio.

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

An analysis of credit quality of gross exposures as at 31 December 2021 and changes in gross exposure balances from 1 January 2021 to 31 December 2021 is set out in the following tables by class of financial assets

2021:

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost				
High Grade	53,130	-	-	53,130
Standard Grade	4,324	-	-	4,324
Satisfactory Grade	68,794		-	68,794
Total	126,248	-	-	126,248

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate Loans and advances / Islamic financing receivables at Amortised cost				
High Grade	378,852	36,994	-	415,846
Standard Grade	866,333	191,264	-	1,057,597
Satisfactory Grade	175,265	484,984	-	660,249
Non-performing	-	-	119,270	119,270
Total	1,420,450	713,242	119,270	2,252,962

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade	1,081,345	20	-	1,081,365
Standard Grade	80,261	805	-	81,066
Satisfactory Grade	25,970	12,076	-	38,046
Non-performing	-	-	60,383	60,383
Total	1,187,576	12,901	60,383	1,260,860

* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Investment				
High Grade	2,823	-	-	2,823
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Non-performing	-	-	-	-
Total	2,823	-	-	2,823

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at FVOCI				
High Grade	119,243	-	-	119,243
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	119,243	-	-	119,243

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade	324,150	-	-	324,150
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	324,150	-	-	324,150

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised cost				
High Grade	53,286	133	-	53,419
Standard Grade	121,173	1,578	-	122,751
Satisfactory Grade	559	4,369	-	4,928
Total	175,018	6,080	-	181,098

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Loan commitments				
High Grade	100,725	40,469	-	141,194
Standard Grade	294,634	74,552	-	369,186
Satisfactory Grade	32,171	80,854	-	113,025
Total	427,530	195,875	-	623,405

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Letter of credit and guarantees*				
High Grade	101,863	6,282	-	108,145
Standard Grade	235,937	31,964	-	267,901
Satisfactory Grade	125,645	60,386	-	186,031
Non-performing	-	-	7,148	7,148
Total	463,445	98,632	7,148	569,225

* includes Corporate & SME , Retail and Banks

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Accrued Interest/profit*				
High Grade	33,576	12,770	-	46,346
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Non-performing	-	-	54	54
Total	33,576	12,770	54	46,400

* includes Corporate & SME , Retail and Banks

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

2020:

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost				
High Grade	23,972	-	-	23,972
Standard Grade	37,048	-	-	37,048
Satisfactory Grade	60,956	-	-	60,956
Total	121,976	-	-	121,976

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate Loans and advances / Islamic financing receivables at Amortised cost				
High Grade	431,631	32,972	-	464,603
Standard Grade	822,863	220,101	-	1,042,964
Satisfactory Grade	147,690	404,800	-	552,490
Non-performing	-	-	90,525	90,525
Total	1,402,184	657,873	90,525	2,150,582

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade	1,085,927	-	-	1,085,927
Standard Grade	77,881	31	-	77,912
Satisfactory Grade	26,738	4,574	-	31,312
Non-performing	-	-	64,042	64,042
Total	1,190,546	4,605	64,042	1,259,193

* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1 RO 000's	**Stage 2 RO 000's**	**Stage 3 RO 000's**	**Total RO 000's**
Investment				
High Grade	2,423	-	-	2,423
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Non-performing	-	-	-	-
Total	2,423	-	-	2,423

	Stage 1 RO 000's	**Stage 2 RO 000's**	**Stage 3 RO 000's**	**Total RO 000's**
Debt investment securities at FVOCI				
High Grade	115,057	-	-	115,057
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	115,057	-	-	115,057

	Stage 1 RO 000's	**Stage 2 RO 000's**	**Stage 3 RO 000's**	**Total RO 000's**
Debt investment securities at Amortised cost				
High Grade	335,602	-	-	335,602
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	335,602	-	-	335,602

	Stage 1 RO 000's	**Stage 2 RO 000's**	**Stage 3 RO 000's**	**Total RO 000's**
Acceptances at Amortised cost				
High Grade	13,110	251	-	13,361
Standard Grade	80,552	1,719	-	82,271
Satisfactory Grade	3,974	4,526	-	8,500
Total	97,636	6,496	-	104,132

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Loan commitments				
High Grade	218,799	50,932	-	269,731
Standard Grade	270,701	59,329	-	330,030
Satisfactory Grade	76,072	68,087	-	144,159
Total	565,571	178,349	-	743,920

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Letter of credit and guarantees*				
High Grade	557,480	102,058	1,953	661,491
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Non-performing	-	-	-	-
Total	557,480	102,058	1,953	661,491

* includes Corporate & SME , Retail and Banks

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Accrued Interest/profit*				
High Grade	31,717	9,753	656	42,126
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Non-performing	-	-	-	-
Total	31,717	9,753	656	42,126

* includes Corporate & SME , Retail and Banks

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(xi) Distribution of impaired loans

The following table presents the distribution of impaired loans, past due and not past due loans by type of industry:

	Performin g loans RO'000	Non-performing loans RO'000	Expected Credit Loss for Stage 1 & 2 Exposure RO'000	Expected Credit Loss for Stage 3 Exposure RO'000	Interest reserve RO'000	Expected Credit Loss during the year RO'000	Advances written off during the year RO'000
31 December 2021							
Import trade	**112,921**	**7,996**	**1,781**	**2,248**	**1,065**	**1,364**	**91**
Export trade	**8,093**	**7**	**94**	**3**	**4**		**-**
Wholesale/retail trade	**106,860**	**9,575**	**3,558**	**4,168**	**1,662**	**663**	**266**
Mining and quarrying	**106,491**	**16**	**3,149**	**5**	**11**	**1**	**-**
Construction	**361,177**	**82,541**	**11,357**	**34,380**	**12,475**	**8,736**	**1,536**
Manufacturing	**281,947**	**3,814**	**3,045**	**1,322**	**144**	**1,201**	**443**
Electricity, gas and water	**197,629**	**-**	**1,042**	**-**	**-**		**-**
Transport and communication	**59,733**	**256**	**766**	**125**	**74**	**160**	**363**
Financial institutions	**189,264**	**-**	**888**	**-**	**-**		**-**
Services	**369,527**	**2,102**	**8,970**	**808**	**601**	**232**	**61**
Personal loans	**1,200,010**	**60,384**	**11,081**	**32,859**	**12,136**	**11,808**	**3,299**
Agriculture and allied activities	**18,211**	**11**	**131**	**5**	**6**		**-**
Government	**147,324**	**-**	**152**	**-**	**-**		**-**
Non-resident lending	**251**	**-**	**-**	**-**	**-**		**-**
Others	**174,731**	**12,951**	**8,932**	**3,655**	**1,939**	**486**	**370**
	3,334,169	**179,653**	**54,946**	**79,578**	**30,117**	**24,651**	**6,429**

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(xi) Distribution of impaired loans (continued)

31 December 2020	**Performing loans RO'000**	**Non-performing loans RO'000**	**Expected Credit Loss for Stage 1 & 2 Exposure RO'000**	**Expected Credit Loss for Stage 3 Exposure RO'000**	**Interest reserve RO'000**	**Expected Credit Loss during the year RO'000**	**Advances written off during the year RO'000**
Import trade	104,339	2,832	2,075	693	544	122	523
Export trade	7,825	7	86	3	3		-
Wholesale/retail trade	28,146	8,943	325	3,601	1,033	(128)	-
Mining and quarrying	31,123	14	255	7	9	1	-
Construction	475,177	30,195	10,906	12,061	3,801	5,210	-
Manufacturing	166,871	795	1,764	315	207	111	-
Electricity, gas and water	196,395	-	848	-	-		-
Transport and communication	2,650	717	53	321	143	64	-
Financial institutions	186,019	-	726	-	-		-
Services	228,641	1,603	7,605	623	429	328	193
Personal loans	1,193,047	66,146	10,991	32,323	12,782	17,297	3,980
Agriculture and allied activities	15,346	10	87	5	5		-
Government	403,898	-	1,362	-	-		-
Non-resident lending	110	-	-	-	-		-
Others	215,621	43,305	14,257	18,276	5,763	5,984	612
	3,255,208	154,567	51,340	68,228	24,719	28,990	5,308

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(xi) Distribution of impaired loans *(continued)*

The following table presents the distribution of impaired loans and gross loans by geographical distribution:

	Exposure to Stage 1 & 2 RO'000	Exposure to Stage 3 RO'000	Stage 1 & 2 ECL RO'000	Stage 3 `ECL RO'000	Interest reserve RO'000	ECL during the year RO'000	Advances written off during the year RO'000
31 December 2021							
Sultanate of Oman	**3,333,918**	**179,653**	**54,946**	**79,578**	**30,117**	**24,651**	**6,429**
Other countries	**251**	**-**	**-**	**-**	**-**	**-**	**-**
	3,334,169	**179,653**	**54,946**	**79,578**	**30,117**	**24,651**	**6,429**
31 December 2020							
Sultanate of Oman	3,255,098	154,567	51,340	68,228	24,719	28,990	5,308
Other countries	110	-	-	-	-	-	-
	3,255,208	154,567	51,340	68,228	24,719	28,990	5,308

Analysis of impairment and collateral

(a) An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	2021 RO 000's	2020 RO 000's
Against individually impaired		
Property	**71,038**	51,550
Equities	**-**	-
Others	**850**	1,019
	71,888	52,569

32 Financial risk management *(continued)*

B. Liquidity risk

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

Bank's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Treasury risk policy also incorporates contingency plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The contingency funding plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily disposed of in sizeable amount etc. The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the CBO set limit of 15%, 20% and 25% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date.

Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time make optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provide the liquidity gap to Treasury Department to meet liquidity gaps.

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

Maturity profile of assets and liabilities

31 December 2021	**Due on demand and up to 30 days**	**More than 1 month to 6 months**	**More than 6 months to 12 months**	**More than 1 year to 5 years**	**Over 5 years**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	250,979	-	-	-	500	251,479
Loan and advances to customer	169,023	507,969	171,014	762,567	1,735,650	3,346,223
Loans and advances to banks	46,223	56,552	22,323	-	-	125,098
Investments FVTPL	-	-	-	-	2,823	2,823
Investments FVOCI Debt Instrument	-	-	10	89,628	27,115	116,753
Investments FVOCI-Equity	-	-			2,490	2,490
Investments at amortized cost	-	-	-	213,935	110,215	324,150
Other assets	46,399	-	181,098		18,290	245,787
Total Assets Funded	**512,624**	**564,521**	**374,445**	**1,066,130**	**1,897,083**	**4,414,803**
Spot and Forward Purchases (notional value)	472,119	731,465	154,973	120,537	-	1,479,094
Total Assets Funded and Non Funded	**984,743**	**1,295,986**	**529,418**	**1,186,667**	**1,897,083**	**5,893,897**
Future Interest cash inflows	15,439	70,126	70,623	415,065	331,237	902,490
Due to banks	119,009	201,355	9,625	130,900	-	460,889
Deposits from customers	274,992	679,501	554,497	861,068	605,581	2,975,639
Other liabilities	66,185	9973	181,649	5,515	5,417	268,739
Subordinated loans	-	-	-	35,000	-	35,000
Total liabilities	**460,186**	**890,829**	**745,771**	**1,032,483**	**610,998**	**3,740,267**
Spot and Forward Purchases (notional value)	470,398	730,512	154,707	119,350	-	1,474,967
Loan commitments	623,405	-	-	-	-	623,405
Letter of credit	68,983	-	-	-	-	68,983
Guarantees and performance bonds	500,242	-	-	-	-	500,242
Total Liabilities Funded and Non Funded	**2,123,214**	**1,621,341**	**900,478**	**1,151,833**	**610,998**	**6,407,864**
Future Interest cash outflows	4,823	53,749	43,590	142,112	620,832	865,106
Cumulative Liabilities	2,123,214	3,744,555	4,645,033	5,796,866	6,407,864	
Gap	1,138,471	325,355	371,060	-34,834	-1,286,085	
Cumulative Gap	1,138,471	1,463,826	1,834,886	1,800,052	513,967	

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

31 December 2020	**Due on demand and up to 30 days RO'000**	**More than 1 month to 6 months RO'000**	**More than 6 months to 12 months RO'000**	**More than 1 year to 5 years RO'000**	**Over 5 years RO'000**	**Total RO'000**
Cash and balances with Central Bank of Oman	208,336	-	-	-	500	208,836
Loan and advances to customer	218,789	277,762	223,856	1,022,216	1,522,865	3,265,488
Loans and advances to banks	39,393	64,155	17,974	-	-	121,522
Investments FVTPL	-	-	4,120	-	-	4,120
Investments FVOCI Debt Instrument	-	-	-	40,060	74,759	114,819
Investments FVOCI-Equity	-	-	3,276	-	-	3,276
Investments at amortized cost	30,000	13,443	742	163,711	127,706	335,602
Other assets	42,236	68,311	35,821	-	30,206	176,574
Total Assets Funded	**538,754**	**423,671**	**285,789**	**1,225,987**	**1,756,036**	**4,230,237**
Spot and Forward Purchases (notional value)	377,737	375,395	310,754	90,360	-	1,154,246
Total Assets Funded and Non-Funded	**916,491**	**799,066**	**596,543**	**1,316,347**	**1,756,036**	**5,384,483**
Future Interest cash inflows	15,267	67,729	69,212	323,524	164,890	640,622
Due to banks	61,310	131,670	47,225	211,750	-	451,955
Deposits from customers	256,700	582,090	676,504	813,905	532,116	2,861,315
Other liabilities	54,417	68,828	36,448	5,563	47,633	212,889
Subordinated loans	-	-	-	35,000	-	35,000
Total liabilities	**372,427**	**782,588**	**760,177**	**1,066,218**	**579,749**	**3,561,159**
Spot and Forward Purchases (notional value)	260,739	380,133	337,652	184,800	-	1,163,324
Loan commitments	743,920	-	-	-	-	-
Letter of credit	67,981	-	-	-	-	-
Guarantees and performance bonds	593,510	-	-	-	-	-
Total Liabilities Funded and Non Funded	**2,038,577**	**1,162,721**	**1,097,829**	**1,251,018**	**579,749**	**4,724,483**
Future Interest cash outflows	4,573	31,216	38,541	74,399	24,216	172,945
Cumulative Liabilities	2,038,577	3,201,298	4,299,127	5,550,145	6,129,894	
Gap	1,122,086	363,655	501,286	-65,329	-1,176,287	
Cumulative Gap	1,122,086	1,485,741	1,987,027	1,921,698	745,411	

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. As per CBO guidelines LCR should be minimum 100% on an ongoing basis with effect from 01 January 2019. However, in view of current COVID-19 situation, CBO has temporarily allowed for a minimum LCR of 75% for Bank's Islamic window up to 31 December 2021, while minimum LCR of 100% is expected to be maintained at all times by the Bank. The Bank is in compliance of the regulatory limit of LCR as at 31 December 2021, with LCR of 154.09% calculated on weighted average value for the year (2020: 201.47%).

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. It is effective January 2018, with a minimum ratio of 100% as per the regulatory guidance. The Bank is meeting the regulatory limit of NSFR as at 31 December 2021, with a NSFR of 110.49% calculated on weighted average value for the year (2020: 117.94%).

C. Market risk

Market risk includes currency risk, interest rate risk and equity price risk.

I. Currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar. Rial Omani is effectively pegged to US Dollar. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank. The foreign currency exposures are given below:

Foreign currency exposures

	2021 RO'000	2020 RO'000
Net assets denominated in US Dollars	**36,562**	116,648
Net assets denominated in UAE Dirham (AED)	**750**	78,386
Net assets denominated in other foreign currencies	**1,235**	618
	38,547	195,652

II. Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities are reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Risk Management Committee of the Board. Impact on earnings due to interest rate risk in the banking book is as follows:

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. Interest rate risk *(continued)*

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

	+ or – 1%		+ or – 2%	
	2021	2020	**2021**	2020
	RO'000	RO'000	**RO'000**	RO'000
Omani Rials	**5,513**	8,242	**11,027**	16,483
US Dollars	**3,855**	4,401	**7,711**	8,803
Others currencies	**26**	35	**52**	71
	9,394	12,678	**18,790**	25,357

There is no interest rate risk on trading book of the Bank.

The impact on statement in changes of equity due to interest rate risk in the banking book is not material to the financial Statements.

Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. The Bank manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

31-Dec-21	**Effective average interest rate**	**Due on demand and within 30 days**	**Due within 1 to 6 months**	**Due within 7 to 12 months**	**Due within 1 to 5 years**	**Due after 5 years**	**Non-interest bearing**	**Total**
	%	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	**0.1%**						**251,479**	**251,479**
Investments - FVTPL		**-**	**-**	**-**	**-**	**-**	**2,823**	**2,823**
Investment – FVOCI Equity							**2,490**	**2,490**
Investment FVOCI – Debt Instrument	**6.5%**		**10**		**89,628**	**27,115**	**-**	**116,753**
Investments at amortized cost	**4.8%**				**213,935**	**110,215**	**-**	**324,150**
Loans, advances and financing to banks	**2.7%**	**19,250**	**70,024**	**10,000**	**-**	**-**	**25,824**	**125,098**
Loans, advances and financing to customers	**5.4%**	**499,163**	**1,229,318**	**391,657**	**421,249**	**804,836**	**-**	**3,346,223**
Other assets		**-**	**-**	**181,098**	**-**	**-**	**64,689**	**245,787**
Total assets		**518,413**	**1,299,352**	**582,755**	**724,812**	**942,166**	**347,305**	**4,414,803**
Due to banks	**2.3%**	**147,610**	**287,980**	**9,625**	**15,400**		**274**	**460,889**
Deposits from customers	**3.2%**	**148,475**	**455,108**	**887,977**	**553,278**	**509,364**	**421,437**	**2,975,639**
Other liabilities		**-**	**-**	**181,098**	**-**	**-**	**87,641**	**268,739**
Subordinated loan	**6.2%**	**-**	**-**	**35,000**	**-**	**-**	**-**	**35,000**
Total liabilities		**296,085**	**743,088**	**1,113,700**	**568,678**	**509,364**	**509,352**	**3,740,267**
On-balance sheet gap		**222,327**	**556,264**	**-530,945**	**156,134**	**432,802**	**-162,047**	
Cumulative interest sensitivity gap		**222,327**	**778,591**	**247,646**	**403,780**	**836,582**	**674,535**	

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. Interest rate risk *(continued)*

Interest rate sensitivity gap *(continued)*

31-Dec-20	Effective average interest rate	on demand and within 30 days	Due within 1 to 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-interest bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	0.10%	105,875	-	-	-	500	102,461	208,836
Loans, advances and financing to banks	3.50%	41,226	79,160	-	-	-	1,136	121,522
Loans, advances and financing to customers	5.70%	493,508	1,451,032	91,829	640,631	588,488	-	3,265,488
Investments - FVTPL		-	-	-	-	-	4,120	4,120
Investment – FVOCI Equity		-	-	-	-	-	3,276	3,276
Investment FVOCI – Debt Instrument	6.50%	-	-	-	40,060	74,759	-	114,819
Investments at amortized cost	4.80%	30,000	6,047	-	207,779	91,776	-	335,602
Other assets		-	-	-	-	-	176,574	176,574
Total assets		**670,609**	**1,536,239**	**91,829**	**888,470**	**755,523**	**287,567**	**4,230,237**
Due to banks	2.50%	61,310	131,670	47,225	211,750	-	-	451,955
Deposits from customers	3.00%	226,779	505,383	1,110,342	505,018	142,344	371,449	2,861,315
Other liabilities		-	-	-	-	-	212,889	212,889
Subordinated loan	6.10%	-	-	-	35,000	-	-	35,000
Total liabilities		**288,089**	**637,053**	**1,157,567**	**751,768**	**142,344**	**584,338**	**3,561,159**
On-balance sheet gap		382,520	899,186	(1,065,738)	136,702	613,179	(296,771)	
Cumulative interest sensitivity gap		382,520	1,281,706	215,968	352,670	965,849	669,078	

32 Financial risk management *(continued)*

C. Market risk *(continued)*

III. Investment Price risk

Bank is exposed to the volatility in the prices of the securities held under equity and debt portfolio. Equity and debt investments held are for strategic/long term rather than for trading purposes and hence, the Bank does not hold trading positions in equity and debt investments. However the Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against investment revaluation reserve in shareholder's equity and for impaired investments.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity and debt risk exposure.

If there is adverse impact of 5% on equity investment portfolio, the value of the portfolio may decrease by RO 2.11 million (2020: decrease by RO 1.89 million).

If price for unlisted equity and debt instruments had been 5% lower:

The financial statements include holdings in unlisted shares and bonds which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% lower / higher while all other variables were held constant, the carrying amount of the unlisted shares and bonds would decrease / increase by RO 0.108 million (2020: decrease / increase by RO 0.163 million).

D. Operational risk

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events leading to financial/ non-financial losses for the Bank. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on Banking Supervision (BCBS), operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Risk Management Committee (RMC), a sub-committee of the Board, drives the implementation of the risk management framework, approved by the Board, at the apex level. The RMC ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of the Bank's operations and also ensures implementation of Central Bank of Oman's guidelines on Risk Management/Basel II/Basel III and internationally accepted best practices in the area of risk management including Operational risk management. Management Risk Committee (MRC), comprising of Senior Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2019, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversees the various operational functions of the Bank.

Taking the New Capital Accord Implementation as an opportunity, the Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. The Bank has also set up Operational Risk Management Software to aid assessment of operational risk as well as collection and analysis of operational losses and key risk indicators.

32. Financial risk management *(continued)*

D. Operational risk *(continued)*

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact. RMD in association with business units has been able to complete the RCSA exercise for all the departments and branches of the conventional banking. During RCSA exercise, processes in various departments were reviewed from operational risk point of view and wherever high risk events were identified, the extant controls were reviewed. With the completion of the RCSA exercise, risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks. KRIs of all the departments in conventional banking have been identified and are being monitored on a monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on a regular basis and is presented to the Management and Board level committees. In order to avoid unexpected shocks to the financial position of the Bank, a reporting system on “Potential Losses” has also been introduced. Potential Loss can be defined as an operational event that has not actually crystallized into actual loss but has a potential of adversely impacting Bank’s bottom-line.

Operational Risk Unit (ORU) in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards achievement of stated goals and objectives. Risk Management Division (RMD) conducts regular training programs for staff at various levels to inculcate ‘risk awareness’ and to spread the general ‘risk management culture’ in the Bank. Professional training in diversified forms is also imparted to improve the employees’ risk management skills.

Business Continuity Planning (BCP)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. Bank has adopted Business Continuity / Disaster Recovery Plan with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/ Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

- Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.

- The Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.

- The Bank-wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipment’s, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.

32. Financial risk management *(continued)*

D. Operational risk *(continued)*

Business Continuity Planning (BCP) *(continued)*

- For the cause of human safety and security, fire drill exercises are also conducted in Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators /floor leaders /fire wardens are tested and security procedures are reinforced.

- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.

- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has put in place Internal Capital Adequacy Assessment Process (ICAAP) with an objective to explain the Risk policies adopted, Risk policy principles, Target risk structure and Capital planning, the process of assessing the capital adequacy for all the three risks viz., Credit Risk, Market Risk and Operational Risk, Specific assessment procedures for all material risks like interest rate risk in banking book, reputational risk, credit concentration risk etc, the process of Internal Control Mechanism and the stress testing methodologies adopted by the Bank.

As a part of capital planning process, ICAAP provides a detailed assessment of its current capital adequacy, and also project future capital requirement to meet the regulatory capital adequacy ratios in line with approved business plans. The process covers a forward looking plan for the next 3 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Bank's risk profile. It is also expected that the establishment of ICAAP in the Bank will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. ICAAP is approved by the Board of Directors through Board Risk Committee. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The capital planning is reviewed on half yearly basis and the entire ICAAP document is updated at least annually for a forward-looking planning period of 3 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, scenario and sensitivity analysis is also carried out. The scenario analysis entails boom in the economy & rise in oil prices, Decline in GDP due to economic downturn or due to decline in oil prices and capital adequacy sensitivity due to increase & decrease in growth of loans and advances. Besides this, Bank also conducts stress testing to assess the potential impact of the stress situations on the Bank's earnings & capital position and enable the Bank to understand its risk profile & adjusting it in accordance with the risk appetite.

33. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year. As per CBO guidelines, the Bank needs to maintain capital adequacy ratio (CAR) at a minimum of 12.875% (including the capital conservation buffer) as at 31 December 2021 and with effect from 1 January 2019, to maintain minimum capital adequacy ratio of 13.5% (including capital conservation buffer).

The capital base of the Bank consists of debt, which includes borrowings disclosed in note 15, and equity attributable to shareholders of the Bank comprising issued share capital, share premium, reserves and retained earnings and Perpetual Tier I Capital securities, as disclosed in notes 16 to 19

33 Capital risk management *(continued)*

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2021 is 17.74 % (2020: 17.70 %).

Capital structure	**2021**	2020
	RO’000	RO’000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	**299,635**	299,635
Legal reserve	**64,538**	62,025
Share premium	**95,656**	95,656
Special reserve	**16,988**	17,488
Subordinated loan reserve	**28,000**	21,000
Retained earnings (after proposed dividend)	**22,930**	22,189
CET I/Tier I Capital	**527,747**	517,993
Additional Tier I regulatory adjustments:		
Deferred tax assets	**(3,420)**	(5,341)
Negative investment revaluation reserve	**(5,627)**	(5,637)
Total CET 1 capital	**518,700**	507,015
Additional Tier I capital (AT1)	**155,500**	155,500
Total Tier 1 Capital (T1=CET1+AT1)	**674,200**	662,515
TIER II CAPITAL		
Investment revaluation reserve	**649**	1,151
General provision	**39,108**	43,264
Subordinated loan	**-**	14,000
Total Tier II capital	**39,757**	58,415
Total eligible capital	**713,957**	720,930
Risk weighted assets		
Banking book	**3,719,641**	3,662,490
Trading book	**64,345**	142,159
Operational risk	**240,038**	267,556
Total	**4,024,024**	4,072,205
Total Tier 1 Capital (T1=CET1+AT1)	**674,200**	662,515
Tier II capital	**39,757**	58,415
Total regulatory capital	**713,957**	720,930
Common Equity Tier 1 ratio	**12.89%**	12.45%
Tier I capital ratio	**16.75%**	16.27%
Total capital ratio	**17.74%**	17.70%

The Bank has complied with all externally imposed capital requirements as at 31 December 2021 and 31 December 2020.

34 Segmental information

The Bank is organised into three main business segments:

1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;

2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and

3) Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment which are included in "Treasury and investments" segment. Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income or expense between the business segments. Segment total revenue presented in the table below is the total Interest income, income from Islamic financing/investments, net fees and commission income and other operating income.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position.

At 31 December 2021	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	**68,591**	**106,791**	**31,338**	**206,720**
Other revenues (net of commission expense)	**7,151**	**9,596**	**7,276**	**24,023**
Total	**75,742**	**116,387**	**38,614**	**230,743**
Interest, Islamic Window Deposit expenses	**(28,764)**	**(57,450)**	**(18,083)**	**(104,297)**
Net operating income	**46,978**	**58,937**	**20,531**	**126,446**
Segment cost				
Operating expenses including depreciation	**(35,035)**	**(31,576)**	**(5,729)**	**(72,340)**
Impairment for loans and investment net recoveries from allowance for loans impairment	**(4,834)**	**(18,331)**	**(1,486)**	**(24,651)**
Profit from operations after provision	**7,109**	**9,030**	**13,316**	**29,455**
Income tax expenses	**(1,046)**	**(1,328)**	**(1,958)**	**(4,332)**
Net profit for the year	**6,063**	**7,702**	**11,358**	**25,123**
Segment assets	**1,418,703**	**2,601,875**	**588,461**	**4,609,039**
Less: Allowance for expected credit losses	**(56,123)**	**(112,723)**	**(1,407)**	**(170,253)**
Total segment assets	**1,362,580**	**2,489,152**	**587,054**	**4,438,786**
Segment liabilities	**832,353**	**2,351,371**	**546,146**	**3,729,870**
Add: Allowance for expected credit losses	**3**	**8,796**	**1,598**	**10,397**
Segment liabilities	**832,356**	**2,360,167**	**547,744**	**3,740,267**

Substantially income generated by the Bank and the non-current assets arise from the Sultanate of Oman.

34 Segmental information *(continued)*

At 31 December 2020	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	71,542	104,704	29,008	205,254
Other revenues (net of commission expense)	4,454	9,236	8,663	22,353
Total	75,996	113,940	37,671	227,607
Interest, Islamic Window Deposit expenses	(29,516)	(52,468)	(15,630)	(97,614)
Net operating income	46,480	61,472	22,041	129,993
Segment cost				
Operating expenses including depreciation	(30,962)	(28,885)	(5,232)	(65,079)
Impairment for loans and investment net recoveries from allowance for loans impairment	(3,311)	(26,507)	828	(28,990)
Bad Debts Written off	(1)	-	-	(1)
Profit from operations after provision	12,206	6,080	17,637	35,923
Income tax expenses	(1,814)	(903)	(2,621)	(5,338)
Net profit for the year	10,392	5,177	15,016	30,585
Segment assets	1,320,638	2,365,718	716,042	4,402,398
Less: Allowance for expected credit losses	(56,134)	(88,547)	(694)	(145,375)
Total segment assets	1,264,504	2,277,171	715,348	4,257,023
Segment liabilities	743,066	2,308,453	497,988	3,549,507
Add: Allowance for expected credit losses	3	10,831	818	11,652
Segment liabilities	743,069	2,319,284	498,806	3,561,159

Substantially income generated by the Bank and the non-current assets arise from the Sultanate of Oman.

35 Dividends – proposed and declared

Considering the market conditions and to preserve the capital through internally generated profits, the Board of Directors of Directors in their meeting held on 27 January 2022 proposed a total cash dividend of 2%, (2 (two) baizas per share, total of RO 5.993 million (2020: 4%; RO 11.985 million). This is subject to the Central Bank of Oman and shareholders' approval.

A resolution to approve these distributions will be presented to the shareholders at the Annual General Meeting to be held on 28 March 2022.

During the year, unclaimed dividend amounting to Nil (2020: RO 3,864) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

36 Leases

This note provides information for leases where the Bank is a lessee.

(i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	2021	2020
	RO'000	RO'000
Right-of-use assets		
Leased Premises	**816**	1,457
Lease liabilities		
Current	**-**	-
Non-current	**474**	671
	474	671

Additions to the right-of-use assets during the 2021 financial year were RO 0.039 million (2020: RO 0.38 million).

(ii) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	2021	2020
	RO'000	RO'000
Depreciation charge of right-of-use assets		
Leased Premises	**655**	676
Interest expense	**33**	34
Expense relating to short-term leases	**2,168**	1,695

The total cash outflow for leases in 2021 was RO 0.199 million (2020: RO 0.33 million).

(iii) The following table shows the maturity analysis of lease liabilities:

	2021	2020
	RO'000	RO'000
More than 1 year	**474**	671

36 Leases (continued)

(iv) The Bank's leasing activities and how these are accounted for

The Bank leases various offices, storage facilities, and retail space for its branches. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options as described in (iv) below.

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.
The lease payments are discounted using the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

Each lease payment is allocated between principle and finance cost. The finance cost is charged to statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- any restoration costs.

The right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in statement of comprehensive income . Short-term leases are leases with a lease term of 12 months or less. The Bank does not have any Low-value assets as of the respective reporting date.

36 Leases (continued)

(v) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Bank. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable by the Bank and by the respective lessor. Extension options are not included in the lease term because it is not reasonably certain that the leases will be extended or not terminated.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

- For leases of premises, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).

  - If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
  - Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in premises leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption. The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the financial year, the Bank did not revise the lease term as no significant events or changes occurred.

37 Changes to corresponding amounts

Certain corresponding amounts have been reclassified to conform with the presentation for the current year. Such reclassifications are considered as restatements as per IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors as set out below:

A. Cash and cash equivalents

Due from banks with a short term maturity of 3 months or less were previously presented under due from banks instead of cash and cash equivalents within the statement of cash flows. These items are reclassified from due from banks to cash and cash equivalents as set out below:

	2020 – revised	**2020 – original**
Cash and cash equivalents comprises of:	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	208,836	208,836
Capital deposit with Central Bank of Oman	(500)	(500)
Due from banks with a short term maturity of 3 months or less	64,190	-
Cash and cash equivalents as of 31 December 2020	272,526	208,336

These changes did not impact on other line items within the statement of cash flows apart from operating cash flows or on the other primary statements.

37 Changes to corresponding amounts (continued):

B. Intangible assets and deferred tax assets

Intangible assets and deferred tax assets, previously included in other line items have been presented as a separate line items within statement of financial position as set out below:

	2020 – revised	**2020 – original**	**Changes**
	RO’000	**RO’000**	**RO’000**
Intangible assets	11,804	-	11,804
Deferred tax assets	5,341	-	5,341
Property and equipment	9,641	21,445	(11,804)
Other assets	176,574	181,915	(5,341)
Total changes			-

These changes did not impact other line items in the other primary statements.

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