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LEGAL STATUS AND PRINCIPAL ACTIVITIES

Ahlibank SAOG (the 'Bank') is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial & investment banking activities through a network of thirty seven branches as at year end with twenty two conventional and fifteen Islamic branches. (2020 - nineteen conventional and twelve Islamic branches). The registered address of the Bank is PO Box 545, Mina Al Fahal, PC 116, Sultanate of Oman.

Ahli islamic (the Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of the Bank. The Islamic Window offers a full range of Islamic banking services and products. The principal activities of the Islamic Window include accepting Sharia compliant customer deposits, providing Sharia compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah and undertaking investment activities and providing commercial banking services and other investment activities permitted under the Islamic Banking Regulatory Framework (IBRF) issued by the CBO.

The Bank had 795 employees as at 31 December 2021 compared to 730 as at 31 December 2020.

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BASIS OF PREPARATION**Statement of compliance**

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

The Bank 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 carve out 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"), 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 IBWs financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income which have been measured at fair value. The statement of financial position is presented in the order of liquidity as this presentation is more appropriate to Bank's operations.

Functional and presentation currency

The financial statements are prepared in Rial Omani ('RO') which is the functional and reporting currency of the Bank. The United States Dollar ('US\$') amounts shown in the financial statements have been translated from Rial Omani to US\$ for information purposes as a supplementary information only, using the exchange rate of RO 0.385 = US\$ 1.00. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousand, unless otherwise stated.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Standards, amendments and interpretations effective in 2021 and relevant for the Bank's operations

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Interest rate benchmark reform - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The United Kingdom's Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), had announced that the interest benchmark would be replaced with alternative risk-free rates (RFR) after 31 December 2021/ 30 June 2023. As a result, Banks have ceased rate submissions for the calculation of the London Interbank Offered Rates (LIBOR), for all currencies and tenors (other than certain settings of USD LIBOR), after December 31, 2021. For 1 month, 3 month, 6 month and 12 month tenors of USD, rate submission will cease after June 30, 2023. The Bank has certain exposures to USD LIBOR on its financial instruments that are being impacted due to this benchmark transition. The alternative risk-free rate, Secured Overnight Financing Rate ('SOFR'), has been announced as replacement rate for USD LIBOR.

Interbank Offered Rate (IBOR) Reform- Phase 1 Amendments

The Bank had adopted Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform Phase 1) with effect from 1 January 2020. IBOR reform Phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. IBOR reform Phase 1 provides reliefs which require the Bank to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered because of IBOR reform. In addition, the reliefs allow the Bank to not discontinue hedging relationships because of retrospective or prospective ineffectiveness. IBOR Reform Phase 1 also requires additional disclosures in relation to those hedging relationships to which the reliefs are applied.

Interest rate benchmark reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. IBOR reform Phase 2 includes a number of reliefs and additional disclosures. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. The reliefs apply upon the transition of a financial instrument from a LIBOR to a risk-free-rate (RFR). Moreover, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

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:

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

IFRS 9 Financial Instruments – Fees in the 10 per cent test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9 wherein it amended that the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank is currently assessing the impact on its financial statements.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022) reissued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023)

Amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Bank is currently assessing the impact of this amendment on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Bank is currently assessing the impact of this amendment on its financial statements.

IFRS 17 “Insurance Contracts” - effective for annual periods beginning on or after 1 January 2023

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank is currently in the process of assessing the impact of amendment of IFRS 17 on its financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023)

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

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SIGNIFICANT ACCOUNTING POLICIES**Foreign currency translation**

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the reporting date. Any resulting exchange differences are included in 'other operating income' in the statement of comprehensive income.

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income, except for non-monetary financial assets, which are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Revenue and expense recognition

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 include 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 principle 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.

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

Interest income which is doubtful of recovery is included in loan impairment and excluded from income until it is received in cash.

Fees and commission

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 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 Bank satisfies its performance obligation upon completion of the related services as mentioned in the contract and revenue is recognised accordingly.

Dividends

Dividend income is recognised when the right to receive dividend is established.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation arising from a past event and the costs to settle the obligation are both probable and can be reliably estimated.

Financial assets and financial liabilities**Recognition and initial measurement**

The Bank initially recognises loans & advances and financing, deposits, borrowings and subordinated liabilities on the date on which they are originated. All other financial instruments 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.

Measurement categories of financial assets and financial liabilities**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 and 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 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 on the principal amount outstanding.

It is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost less impairment.

Financial assets measured at fair value through other comprehensive income**a) Debt instruments**

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

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'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.

b) 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 on investment basis. Amounts presented in other comprehensive income are not subsequently transferred to the statement of comprehensive income. Dividends are recognised in the statement of comprehensive income only when the right of payment has been established.

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

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 or mandatorily required to be measured at fair value as per IFRS 9. It is 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 available under IFRS 9 are:

- (i) Hold to Collect - Financial assets held with the objective to collect contractual cash flows.
- (ii) Hold to Collect and Sell - Financial assets held with the objective of both collecting contractual cash flows and selling financial assets.
- (iii) Other - Financial assets held with trading intent or that do not meet the criteria of either "Hold to collect" or "Hold to collect and sell".

The Bank's business model reflects how it manages the assets to generate cash flows. Whether it is solely to collect the contractual cash flows from the asset (Hold to collect) or both the contractual cash flows and from sale of asset (Hold to collect and sell). Factors considered by the Bank in determining the business models for group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. These securities are classified in the 'other business model and measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest (The 'SPPI test')

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents

solely payment of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Loans & advances and financings receivables

The Bank holds a portfolio of loans & advances and financing receivables for which interest rates are revised at periodic intervals. These rates are revised based on the market rates. Accordingly, the Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate that is consideration for time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

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 impairment losses which are recognised in the statement of comprehensive income.

The Bank has two classes of loans & advances and financing receivables;

Corporate banking (including SME)

Corporate customers includes loans & advances and financing given to corporate and institutional customers by way of working capital loans, term loans, overdrafts, leases, syndication arrangements, fund transfer facilities, etc.,

Retail banking

Retail banking offers a broad range of products and services to meet the personal banking needs of individual customers. It includes personal banking products such as current and savings accounts, mortgages and personal loans, credit cards, debit cards, overdraft facilities, Islamic financing and fund transfer facilities.

Investments

Investments which are recognised in the statement of financial position includes:

- (i) Debt securities measured at FVOCI;
- (ii) Equity investment securities mandatorily measured at FVTPL and these are at fair value with changes recognised immediately in profit or loss;
- (iii) Equity investment securities designated at FVOCI

For debt securities measured at FVOCI, gain and losses are recognised in 'other comprehensive income' and when it is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. The Bank has designed certain equity investments under FVOCI on the basis that these investments are not held for trading / intends to hold in long term for better dividend yields. The Bank elects to present in other comprehensive income the changes in the fair value of certain investments in equity instruments that are measured at FVOCI. The election is made on an instrument by instrument basis on initial recognition.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, unrestricted balances held with Central Bank of Oman, due from banks, due to banks and highly liquid financial assets with original maturities of

upto three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Due from banks

These are stated at amortised cost using effective interest rate method, less any amounts written off and allowance for impairment.

Financial guarantee contracts, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letter of credit and loan commitments. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holders for a loss that is incurred because of specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, 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.

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision as described in note 4.3.5. Liabilities arising from financial guarantee and loan commitments are included within provisions under other liabilities in statement of financial position.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in statement of comprehensive income, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in the statement of comprehensive income.

Borrowed funds

Borrowed funds are recognised initially at their issue proceeds less transaction cost, if any. Borrowings are subsequently stated at amortised cost, any difference between proceeds net of transaction cost, and the redemption value is recognised in the statement of comprehensive income over the period of borrowing using the effective interest rate method.

Deposits and subordinated liabilities

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Deposits and subordinated liabilities are measured at amortised cost using the effective interest method.

Derecognition

Financial assets

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

- (a) The rights to receive cash flows from the asset have expired;
- (b) The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or
- (c) 'the Bank has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset and has netither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Bank's involvement in the asset. In that case, the Bank also recognises an associated liability.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in statement of comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on net basis only when permitted by IFRS or for gains and losses arising from a group of similar transactions.

Impairment

The Bank assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or FVOCI which mainly include loans & advances and financings, investments (other than equity investments), interbank placements, loan commitments and financial guarantees. The Bank recognises a loss allowance and provisions for such losses at reporting date. The measurement of ECL reflects:

- 'an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;

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- 'the time value of money; and
- 'reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank's approach leveraged the existing regulatory capital models and processes for Bank's loan portfolios that use the existing Internal Rating based and behavioral credit models. ECL is calculated by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

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

- debt investment securities and loans & advances and financings 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.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

i) Measurement of ECL

ECL are a probability weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit impaired at the reporting date: Difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the bank if the commitment is drawn down and the cash flows that the Bank expects to receive;
- financial guarantee contracts; the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ii) Overview of ECL principles

The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment requirements under IFRS 9.

Credit loss allowances 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.

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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.

Both 12 month expected credit loss and lifetime expected credit losses are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

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

Stage 1: Credit risk has not increased significantly since initial recognition- recognise 12 month expected credit losses.

Stage 2: Credit risk has not increased significantly since initial recognition- recognise lifetime expected losses with revenue being calculated based on the gross amount of the asset.

Stage 3: There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset.

For financial assets in Stage 1 and Stage 2, the Bank calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount (i.e., without deduction for ECLs). Interest income for financial assets in Stage 3 is suspended and included in loan impairment.

iii) ECL calculation

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

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

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.

When estimating the ECL, the Bank considers three scenarios (a base case, good case and a bad case). Each of these is associated with different PDs, EADs and LGDs for calculating ECL on the financial assets. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral the amount that might be received for selling the asset.

iv) Presentation of ECL allowance in the statement of financial position

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

- financial assets at amortised cost: as a deduction from gross carrying amount of assets;
- loan commitments and financial guarantee contracts: carrying as provision and shown within other liabilities.
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

v) Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial statements in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance is recognised in the other comprehensive income with a corresponding charge to the statement of income. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of assets.

vi) Credit enhancements: collateral valuation and financial guarantees

Credit risk mitigation (CRM) encompasses collateral management and credit guarantee arrangements. To mitigate credit risk, the Bank will use collateral values, wherever possible. The Bank accepts various types of collateral such as cash margins, fixed deposits, real estate, shares listed in GCC etc., Collateral unless it is repossessed, is not recorded in the statement of financial position. Since the fair value of collateral affects the calculation of ECLs, management monitors and reassess the collateral values at regular intervals and requests for additional collateral, if required. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non financial collateral such as real estate is valued by certified third party valuers.

vii) 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. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. If, in a subsequent year, written off loans & advances and financings receivable is recovered, the recovery is credited to the statement of comprehensive income.

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viii) Forward looking information

In its 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 date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments when such differences are significantly material. Disclosures relating to model adjustments and management overlays are provided in note 37.1.7.

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 derecognition of the existing asset, then the expected cash flows arising from the modified financial assets are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition 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 derecognition.

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost/FVOCI are credit impaired. A financial asset is "credit impaired" when one or more below mentioned events has occurred.

- significant financial difficulty of the borrower;
- a breach of contract such as default or past due event;
- the restructuring of a loan by the Bank;
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation.

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

In making an assessment of whether an investment in a debt instrument is credit impaired, the Bank considers the following events:

- The markets' assessment of creditworthiness of those instrument yields.
- Rating agencies assessment
- The country's ability to access the capital markets for new debt issuance.

Reclassifications

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

Modifications of financial assets and liabilities

Financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition and the Bank recalculates the gross carrying amount based on the revised cash flows and the amount arising from adjusting the gross carrying amount as a modification gain or loss in statement of comprehensive income. If the cash flows are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset.

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 either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of income.

Fair value measurement

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 an asset or transfer a liability takes place either in the principal market, or in the absence of a principal market, in the most advantageous market.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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. Please refer to note 35 for fair value hierarchy valuation techniques.

The fair value of an asset or 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. Fair value of the 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.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the bank analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Bank accounting policies. For this

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analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Bank also compares each of the changes in fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risk of the asset or liability and the level of the fair value hierarchy as explained above.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date derivative contracts are entered into and are subsequently remeasured 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. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. For a cash flow hedge of a forecast transaction, the Bank makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss. 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); or
- hedges of a net investment in a foreign operation (net investment hedge).

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the statement of comprehensive income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated.

For cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised initially in OCI. The ineffective portion of the fair value of the derivative is recognised immediately in the statement of comprehensive income.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are recognised in the statement of comprehensive income for the year.

Repurchase and resale agreements

Securities sold with a commitment to repurchase (repos) at a specified future date at predetermined price are recognised in the statement of financial position and are measured in accordance with accounting policies for financial assets. The counterparty liability for amounts received under these agreements is included in 'due to banks'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement using the effective interest rate method. These securities are not derecognised as the related risks and rewards are not transferred to the counterparties.

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Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) at predetermined price are not recognised in the statement of financial position and the amounts paid under these agreements are included in ‘due from banks’. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

Capitalisation of borrowing costs

Interest cost on borrowings that are directly associated with the acquisition and construction of the qualifying property, equipment and software are capitalised as part of the cost of these assets.

Property, equipment and software

Items of property, equipment and software are measured at cost less accumulated depreciation / amortisation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation / amortisation is provided on a straight-line basis over the estimated useful lives of property, equipment and software, except freehold land. The estimated useful lives for the current period are as follows:

Years

Building 25
Leasehold improvements 5
Computer and other equipment 5-10
Intangibles 10
Vehicles 5
Furniture 10

The assets’ residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date. Capital work in progress is not depreciated until the asset is put to use.

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 sale proceeds with the carrying amount and are recognised within ‘other operating 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, equipment and software. All other expenditures are recognised in the statement of comprehensive income as an expense when incurred.

Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and financings receivables. Real estate is stated at the lower of the net realisable value of the related loans and financings

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receivables 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.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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

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

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

Trade and settlement date accounting

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Leases**A. Definition of lease**

At inception of contract, the Bank assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the right to direct the use of an identified asset;
- the contract has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use.

B. As a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use (ROU) assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate of 4.50% as the discount rate for measurement of lease liability.

Lease payments included in the measurement of lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depends on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments or lease assessment whether it will exercise a purchase, extension or termination option.

Interest on lease liability during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of lease liability. Interest on lease liability is shown separately from the depreciation charge on ROU asset and is shown under other operating expenses in the statement of comprehensive income.

The Bank has disclosed ROU assets under 'property, equipment and software' and lease liabilities in 'other liabilities' in the statement of financial position.

The IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 'Leases' to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. Rent concessions can include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Acceptances

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Acceptances are disclosed in the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

Employee terminal benefits**Terminal 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 Labor Law 2003, as amended and in accordance with IAS 19 employee benefits.

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

Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed when the related service is provided.

Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transaction with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

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 of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

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.

Dividend on ordinary shares

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

Dividend for the year that is approved after the reporting date is considered to be an event after the reporting date and disclosed in the financial statements.

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Perpetual subordinated bond

Perpetual subordinated bonds - Additional Tier 1 capital instruments of the Bank are recognised under equity in the statement of financial position 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 obligations of the Bank and are classified as equity in accordance with IAS 32 - Financial Instruments: Presentation. 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 on any interest payment date thereafter.

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Going Concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

For the year ended 31 December 2021, the Bank has recognised a net profit after tax of RO 27.606 million. The Bank's high quality liquid assets were RO 355.437 million as at 31 December 2021 with the liquidity coverage ratio of 150.01%.

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CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 37.1.7, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- (a) determining criteria for significant increase in credit risk;
- (b) choosing appropriate models and assumptions for measurement of ECL;
- (c) establishing the number and relative weightings of forward looking scenarios for each type of product/market and the associated ECL; and
- (d) establishing groups of similar financial assets for the purposes of measuring ECL.

Fair value of derivatives and other financial instruments

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The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Bank uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Bank uses expected cash flow analysis for various FVOCI financial assets that are not traded in active markets.

Classification of Tier 1 perpetual bond instrument under IAS 32

The Bank has issued Perpetual Tier 1 Securities listed on the Muscat Securities Market, 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.

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SEGMENT INFORMATION

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into two operating segments based on products and services as follows:

- Retail banking includes customers' deposits, unrestricted investment account, consumer loans, overdrafts, credit card, Islamic financing and fund transfer facilities.
- Wholesale banking, treasury and investments include deposits including current accounts, term deposit, loans & advances and Islamic financing etc. for corporate and institutional customers, Treasury, Trade Finance and Investment Banking Services.

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the profit after tax. Geographical distribution of major assets are provided in note 36.1.9 and all liabilities are originated in Oman.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on pool rate, which is approximates the cost of the funds.

Segment information is as follows:

	2021			2020		
	Retail	Wholesale banking, Treasury &		Retail	Wholesale banking, Treasury &	
	banking RO '000	Investment RO '000	Total RO '000	banking RO '000	Investment RO '000	Total RO '000
Net interest income	20,080	34,057	54,137	17,551	31,299	48,850
Net income from Islamic financing and investments	5,859	5,568	11,427	3,419	7,825	11,244
Net interest income and income from islamic financing and investments	25,939	39,625	65,564	20,970	39,124	60,094
Fee and commission income, net & Other operating income	2,293	14,581	16,874	1,735	9,667	11,402
Net operating income	28,232	54,206	82,438	22,705	48,791	71,496
Net impairment on financial assets	(868)	(13,812)	(14,680)	(1,128)	(13,274)	(14,402)
Operating expenses	(21,886)	(13,712)	(35,598)	(17,330)	(12,765)	(30,095)
Profit before taxation	5,478	26,682	32,160	4,247	22,752	26,999
Tax expense	(776)	(3,778)	(4,554)	(477)	(2,554)	(3,031)
Segment profit for the year	4,702	22,904	27,606	3,770	20,198	23,968
Segment assets	729,978	2,322,578	3,052,556	739,286	1,964,678	2,703,964
Segment liabilities	689,124	1,936,435	2,625,559	473,527	1,840,765	2,314,292
Additions to segments	642	5,886	6,528	642	3,637	4,279
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Net interest income	52,156	88,459	140,615	45,587	81,296	126,883
Net income from islamic financing and investments	15,219	14,463	29,682	8,881	20,324	29,205
Net interest income and income from islamic financing and investments	67,375	102,922	170,297	54,468	101,620	156,088
Fee and commission income, net & Other	5,956	37,872	43,828	4,506	25,109	29,615

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operating income

Net operating income	73,331	140,794	214,125	58,974	126,729	185,703
Net impairment on financial assets	(2,255)	(35,875)	(38,130)	(2,930)	(34,478)	(37,408)
Operating expenses	(56,847)	(35,616)	(92,463)	(45,013)	(33,155)	(78,168)
Profit before taxation	14,229	69,303	83,532	11,031	59,096	70,127
Tax expense	(2,016)	(9,813)	(11,829)	(1,239)	(6,634)	(7,873)
Segment profit for the year	12,213	59,490	71,703	9,792	52,462	62,254
Segment assets	1,896,047	6,032,671	7,928,718	1,920,223	5,103,059	7,023,282
Segment liabilities	1,789,932	5,029,706	6,819,638	1,229,940	4,781,208	6,011,148
Additions to segments	1,668	15,289	16,957	1,668	9,447	11,115

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PROPERTY AND EQUIPMENT

	Freehold Building land	Leasehold improvements	Computer and other equipment	Intangibles	Vehicles	Furniture	ROU assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:									
At 1 January 2021	7,091	5,884	3,048	4,859	8,117	206	962	4,261	2,980 37,408
Additions	-	-	788	247	385	-	120	937	4,051 6,528
Transfers	-	-	201	1,157	1,676	-	-	-	(3,034) -
Disposals / scrapped	-	-	(55)	(36)	(94)	-	(27)	-	- (212)
At 31 December 2021	7,091	5,884	3,982	6,227	10,084	206	1,055	5,198	3,997 43,724

Accumulated depreciation and
amortization:

At 1 January 2021	-	1,666	2,058	3,397	4,626	153	746	1,897	- 14,543
Charge for the year	-	235	364	440	683	12	70	939	- 2,743

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Disposals / scrapped	-	-	(55)	(36)	(94)	-	(27)	-	-	(212)
At 31 December 2021	-	1,901	2,368	3,801	5,215	165	789	2,836	-	17,075

**Net book value
as at 31 December 2021**

RO '000	7,091	3,983	1,614	2,426	4,869	41	266	2,362	3,997	26,649
US\$ '000	18,418	10,346	4,193	6,301	12,646	108	690	6,135	10,383	69,220

	Freehold land	Building improvements	Leasehold improvements	Computer and other equipment	Intangibles	Vehicles	Furniture	ROU assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000

Cost:										
At 1 January 2020	7,091	5,884	2,881	4,345	7,412	145	904	3,083	1,865	33,610
Additions	-	-	513	333	77	61	90	1,178	2,027	4,279
Transfers	-	-	-	282	630	-	-	-	(912)	-
Disposals / scrapped	-	-	(346)	(101)	(2)	-	(32)	-	-	(481)
At 31 December 2020	7,091	5,884	3,048	4,859	8,117	206	962	4,261	2,980	37,408

Accumulated depreciation and amortization:

At 1 January 2020	-	1,431	2,155	3,148	4,074	144	707	757	-	12,416
Charge for the year	-	235	250	349	554	9	71	1,140	-	2,608
Disposals / scrapped	-	-	(346)	(100)	(2)	-	(32)	-	-	(480)
At 31 December 2020	-	1,666	2,059	3,397	4,626	153	746	1,897	-	14,544

**Net book value
as at 31 December 2020**

RO '000	7,091	4,218	989	1,462	3,491	53	216	2,364	2,980	22,864
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ANNUAL FINANCIAL STATEMENTS WERE APPROVED BY THE BOARD OF DIRECTORS ON 26 Jan 2022

US\$ '000	18,418	10,955	2,569	3,798	9,068	138	561	6,140	7,740	59,387
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OTHER ASSETS

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
53,909	70,843	Acceptances	27,274	20,755
3,901	3,315	Prepaid expenses	1,276	1,502
7,158	8,701	Interest and profit receivable on investments	3,350	2,756
6,914	4,885	Derivatives - positive mark-to-market (note 36)	1,881	2,662
3,943	6,233	Other receivables	2,400	1,518
(101)	(71)	Less: Impairment loss allowance	(27)	(39)
75,724	93,906		36,154	29,154

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SHARE CAPITAL

The authorised share capital of the Bank is 2,500,000,000 shares amounting to RO 250.000 million (31 December 2020: 2,500,000,000 shares of RO 250.000 million) out of which 1,949,657,466 (31 December 2020: 1,649,657,466 shares) are issued and fully paid up amounting to RO 194.966 million (31 December 2020: RO 164.966 million) . During the year, the Bank raised additional capital through rights issue of 300,000,000 shares of 100bz each. In relation to the rights issue, the Bank received RO 300,000 towards rights issue expenses and it incurred RO 185,000 towards the issue expenses. Accordingly, excess of receipts over expenses towards share issue expenses amounting to RO 115,000 has been transferred to the legal reserve.

Ahli United Bank B.S.C (AUB) is the only shareholder which owns 10% or more of the Bank's shares and having significant influence. On 31 December 2021, shareholding of AUB was 682,380,099 shares equivalent to 35% (31 December 2020: 577,380,102 shares equivalent to 35%).

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LEGAL RESERVE

As required by the Commercial Companies Law of 2019, 10% of the net profit for the year has been transferred to legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals one third of the paid up share capital. The reserve is not available for distribution to the shareholders. During the year, RO 2.761 million equivalent to US\$ 7.17 million (31 December 2020: RO 2.396 million equivalent to US\$ 6.23 million) was transferred to legal reserve.

Impairment reserve:

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

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As per CBO circular BSD/CB & FLCs/2021/002 dated March 18, 2021, CBO has discontinued the application of two track approach as per BM 1149 and hence, the Bank is not required to calculate additional provisions as per CBO norms for the year 2021. Accordingly, provisions required as per CBO norms is same as at 31 December 2020 and there will be no change in Impairment Reserve during the year 2021.

SUBORDINATED LOANS

In accordance with CBO'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.

2020 US\$ '000	2021 US\$ '000	2021 RO '000	2020 RO '000
31,169	7,792 Subordinated loans	3,000	12,000

For each of the last 5 years of the tenor of the subordinated loans, the Bank is required to transfer 20% of the liability to subordinated loan reserve. All subordinated liabilities are repayable at par on maturity. On repayment of subordinated loans, the related subordinated loan reserve balance is released to retained earnings. During the year, an amount of RO 9.00 million equivalent to US\$ 23.38 million was repaid on maturity. The maturity profile and interest rate of these liabilities are disclosed in note 37.2.2.

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CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratio in order to support its business and to maximise shareholders value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. However, no changes are made in the objectives, policies and processes from the previous years as far as management of capital is concerned. The Bank has successfully completed issuance of right shares during March 2021 and increased the paid-up capital by RO 30 million.

The Bank carries out regular Internal Capital Adequacy Assessment process (ICAAP) exercise for assessing the Bank's capital adequacy

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2014. During the year 2020, as part of the covid-19 relief measures CBO lowered the Capital Conservation Buffer (CCB) requirement by 50% from 2.5% to 1.25%. The minimum capital adequacy ratio requirement, accordingly was reduced to 12.25% including capital conservation buffer of 1.25% for both the year 2020 and 2021 (31 December 2019 : 13.5% including capital conservation buffer of 2.5%). In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO issued a new requirement to apply a "prudential filter" approach on IFRS 9 expected credit loss (ECL) provisions on calculating the regulatory capital. Any increase in the Stage 2 provisioning since December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year

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period ending 31 December 2024.

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
620,893	701,502	Common Equity Tier 1 (CET1)	270,078	239,044
322,078	322,078	Additional Tier 1	124,000	124,000
942,971	1,023,580	Tier 1	394,078	363,044
58,308	52,634	Tier 2	20,264	22,448
1,001,279	1,076,214	Total regulatory capital	414,342	385,492
Risk weighted assets				
5,896,920	6,019,852	Credit risk	2,317,643	2,270,314
188,802	84,840	Market risk	32,663	72,689
305,062	336,552	Operational risk	129,573	117,449
6,390,784	6,441,244	Total risk weighted assets	2,479,879	2,460,452
Capital adequacy ratio				
9.72%	10.89%	CET1 capital expressed as a percentage of total risk-weighted assets	10.89%	9.72%
14.76%	15.90%	Total tier I capital expressed as a percentage of total risk-weighted assets	15.90%	14.76%
0.91%	0.82%	Tier II capital expressed as a percentage of total risk-weighted assets	0.82%	0.91%
15.67%	16.71%		16.71%	15.67%

Covid 19 impact on 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 mentioned above. The impact of above filter on the bank's regulatory capital is 19 bps.

In response to pandemic situation and current economic environment, the Bank continues to monitor and respond to all liquidity and funding requirements. As at the reporting date, the capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

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Staff related liabilities includes employee end of service benefits liabilities, the movement during the year is as follows:

2020 US\$ '000	2021 US\$ '000	2021 RO '000	2020 RO '000
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1,083	1,280	At 1 January	493	417
283	649	Provided during the year (note 30)	250	109
(86)	(472)	Payments made during the year	(182)	(33)
1,280	1,457	At 31 December	561	493

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OTHER LIABILITIES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
53,909	70,843	Acceptances	27,274	20,755
89,634	74,512	Interest and profit payable	28,687	34,509
15,561	15,226	Accrued expenses	5,862	5,991
6,829	8,187	Staff related liabilities	3,152	2,629
15,554	7,360	Derivatives - negative mark-to-market (note 36)	2,834	5,988
743	1,318	Deferred Tax Liability (Note 12 (c))	507	286
11,558	20,624	Others	7,940	4,450
3,604	3,971	Impairment allowance on off balance sheet items	1,529	1,388
197,392	202,041		77,785	75,996

As per the directives of the CMA the amount of unpaid dividend which is outstanding for more than seven months is required to be transferred to the "Investors' Trust Fund" established by the CMA. During the year unpaid cash dividend amounting to RO 0.01 million equivalent to US\$ 0.04 million was transferred to the "Investors' Trust Fund" (2020: RO 0.03 million equivalent to US\$ 0.07 million).

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DISAGGREGATION OF FEE AND COMMISSION INCOME, NET

IFRS 15 requires the disclosure of disaggregated revenue earned from contracts with customers for major products/ service lines. The below table provides disaggregation of fees and other income & commission with the Bank's reportable segments:

	2021			2020	
Retail banking	Wholesale banking, treasury and investment banking	Total	Retail banking	Wholesale banking, treasury and investment banking	Total

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	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Disaggregated income						
Service charges	696	473	1,169	573	411	984
Fees income	1,884	6,956	8,840	1,204	4,633	5,837
Commission income	70	1,526	1,596	36	1,304	1,340
Total fee and commission income	2,650	8,955	11,605	1,813	6,348	8,161
Fee expense	(864)	-	(864)	(540)	-	(540)
Net fee and commission income	1,786	8,955	10,741	1,273	6,348	7,621

	2021			2020		
	Retail banking	Wholesale banking, treasury and investment banking	Total	Retail banking	Wholesale banking, treasury and investment banking	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Disaggregated income						
Service charges	1,807	1,229	3,036	1,488	1,068	2,556
Fees income	4,893	18,067	22,963	3,126	12,034	15,160
Commission	181	3,963	4,144	94	3,387	3,481
Total fee and commission income	6,881	23,259	30,143	4,708	16,489	21,197
Fee expense	(2,244)	-	(2,244)	(1,403)	-	(1,403)
Net fee and commission income	4,637	23,259	27,899	3,305	16,489	19,794

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INTEREST INCOME / INCOME FROM ISLAMIC FINANCING AND INVESTMENTS

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
265,314	274,987	Loans and advances	105,870	102,146
26,099	33,605	Investments	12,938	10,048
1,065	2,826	Due from banks	1,088	410
292,478	311,418		119,896	112,604
43,987	51,780	Islamic financing	19,935	16,935
4,465	4,060	Islamic investment	1,563	1,719
48,452	55,840		21,498	18,654

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340,930	367,258	Total	141,394	131,258
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OTHER OPERATING INCOME

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
31	7,649	Gain on sale of investments	2,945	12
9,390	7,412	Foreign exchange gain, net	2,854	3,615
792	432	Dividend income (Refer note 9)	166	305
(392)	436	Unrealised gain/(loss) on FVTPL investments	168	(151)
9,821	15,929		6,133	3,781

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STAFF EXPENSES

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
41,787	47,076	Salaries and allowances	18,124	16,088
3,153	5,021	Other staff costs	1,933	1,214
3,065	3,767	Contribution to social insurance schemes	1,450	1,180
283	649	Employees end of service benefits (note 17)	250	109
48,288	56,513		21,757	18,591

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Impairment charge and provisions held

31 December 2021

	As per CBO norms	As per IFRS 9	Difference
Impairment loss charged to SOCI	14,680	14,680	-
Provisions required as per CBO norms/ held as per IFRS 9	75,068	78,519	(3,451)

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Gross NPLratio (percentage)	3.16%	3.16%	-
Net NPLratio (percentage)	1.19%	1.30%	-0.12%

31 December 2020

	As per CBO norms	As per IFRS 9	Difference
Impairment loss charged to SOCI	15,335	14,402	933
Provisions required as per CBO norms/ held as per IFRS 9	72,117	60,203	11,914
Gross NPLratio (percentage)	2.92%	2.92%	-
Net NPLratio (percentage)	0.66%	1.52%	-0.86%

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NET IMPAIRMENT ON FINANCIAL ASSETS

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
		Net impairment charge		
314	(226)	Due from banks	(87)	121
44,340	47,470	Loans & advances and financing	18,276	17,071
65	(5)	Investment securities	(2)	25
73	(31)	Other assets	(12)	28
758	366	Loan commitments and financial guarantees	141	292
(99)	(166)	Loans & advances and financing written back	(64)	(38)
(1,833)	(1,613)	Recovery of loans written off earlier	(621)	(706)
43,618	45,795		17,631	16,793
(6,210)	(7,665)	Less: Interest reserved during the period	(2,951)	(2,391)
37,408	38,130		14,680	14,402

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OTHER OPERATING EXPENSES

2020	2021	2021	2020
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US\$ '000	US\$ '000		RO '000	RO '000
21,013	25,659	Operating and administration costs	9,879	8,090
1,574	2,249	Occupancy costs	866	606
519	917	Board related expenses	353	200
23,106	28,825		11,098	8,896

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TAXATION**Recognised in the statement of comprehensive income**

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
		Current tax		
10,447	11,873	- Current year	4,571	4,022
(3,003)	(619)	- Prior years	(238)	(1,156)
429	575	Deferred tax	221	165
7,873	11,829		4,554	3,031

Tax liability

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
		Current tax		
10,447	11,873	- Current year	4,571	4,022
6,327	10,577	- Prior years	4,072	2,436
16,774	22,450		8,643	6,458

Deferred tax liability

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000

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(314)	(743) At 1 January	(286)	(121)
(429)	(575) (Charged)/ Reversed during the year	(221)	(165)
(743)	(1,318) At 31 December	(507)	(286)

Movement in Tax Liability

2020	2021	2021	2020
US\$ '000	US\$ '000	RO '000	RO '000
18,397	16,774 At 1 January	6,458	7,083
7,873	11,829 Charge for the year	4,554	3,031
(9,514)	(6,491) Payments during the year	(2,499)	(3,663)
18	338 Additional provision made	130	7
16,774	22,450 At 31 December	8,643	6,458

Relationship between tax expense and accounting profit

The Bank is liable to income tax for the year 2021 in accordance with the income tax laws of the Sultanate of Oman at the rate of 15% (2020: 15%) on taxable profits.

2020	2021	2021	2020
US\$ '000	US\$ '000	RO '000	RO '000
70,127	83,532 Accounting profit for the year	32,160	26,999
10,519	12,530 Tax charge @ 15% on accounting profit	4,824	4,050
	Add/ (less) tax effects of:		
(409)	(607) Income not taxable	(234)	(158)
59	93 Non deductible expense / (income)	36	23
(3,003)	- Prior year tax expense	-	(1,156)
706	(187) Others	(72)	272
7,873	11,829 Tax expense	4,554	3,031

The effective tax rate of the Bank for 2021 was 14.21% (2020: 14.90%)

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The Bank's tax assessments have been completed by the Tax Authorities upto the year 2017. The Bank is 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

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RELATED PARTY TRANSACTIONS

The Bank enters into transactions with major shareholders, directors, senior management and their related entities in the ordinary course of business at commercial terms as approved by the board.

The year end balances in respect of related parties included in the statement of financial position are as follows:

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
		Directors and senior management		
2,436	2,468	Loans & advances and financing, gross	950	938
1,213	1,045	- secured	402	467
1,223	1,423	- unsecured	548	471
5	8	- Expected credit loss allowance	3	2
3,268	4,005	Customers' deposits	1,542	1,258
-	-	Prepaid expenses	-	-
		Major shareholders and others		
-	-	Loans & advances and financing, net		
4,086	3,894	Due from banks	1,499	1,573
499	351	Investments securities	135	192
		Other assets		
579	-	- Fair value of forward contracts	-	223
-	-	- Fair value of swaps	-	-
11,909	10,234	Due to banks	3,940	4,585
68	57	Customers' deposits	22	26
		Other liabilities		
3	-	- Fair value of forward contracts	-	1
8,701	4,434	- Fair value of swaps	1,707	3,350
888	888	Contingent liabilities and commitments	342	342

Loans & advances and financing provided to directors and senior management are not credit impaired at the reporting date and ECL allowance was calculated based on expected credit losses.

The related maturity profile and interest rate risk is given in note 37.2.2 and 37.3.2 respectively.

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The income and expenses in respect of related parties included in the statement of comprehensive income are as follows:

2020 US\$ 000	2021 US\$ 000		2021 RO '000	2020 RO '000
		Directors and senior management		
109	96	Interest income	37	42
60	119	Interest expense	46	23
384	779	Board remuneration proposed	300	148
135	138	Board sitting fees	53	52
86	73	Shariah Supervisory Board expenses	28	33
-	-	Other operating expenses	-	-
		Major shareholders and others		
121	32	Interest expense	12	47
579	-	Gain on fair value of forward contracts	-	223
4,132	4,434	Loss on fair value of interest rate swaps	1,707	1,591
-	-	Other operating expenses	-	-

As at 31 December 2021, guarantees were issued to beneficiaries on behalf of Ahli United Bank, Bahrain, a major shareholder amounting to RO 3.179 million equivalent to US\$ 8.26 million (31 December 2020: RO 3.087 million equivalent to US\$ 8.02 million). The Bank has earned RO 0.001 million equivalent to US\$ 0.003 million (2020: RO 0.004 million equivalent to US\$ 0.01 million) fee on issuing guarantees.

Compensation of the key management personnel is as follows;

2020 US\$ 000	2021 US\$ 000		2021 RO '000	2020 RO '000
3,169	2,962	Salaries and allowances	1,140	1,127
68	62	End of service benefits	24	19
3,237	3,024		1,164	1,146

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Fiduciary Activities

The Bank's fiduciary activities consist of investment management activities conducted as trustee and manager as a part of the Discretionary portfolio management portfolio. The aggregate of the funds managed which are not included in the Bank's statement of financial position were RO 4.911 million which is equivalent to US\$ 12.76 million (2020: RO 2.505 equivalent to US\$ 6.51 million)

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FINANCIAL RISK MANAGEMENT

The primary objective of the risk management system is to safeguard the Bank's capital, its financial resources from various risks. The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors ("the Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has approved the Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate limits and controls and to monitor risks and adherence to the limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank through its training and management procedures, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

Executive Risk Committee of the Board under the oversight of the Board is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Executive Risk Committee of the Board is assisted in these functions by the Risk Management Department. The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee.

Outbreak of Coronavirus and measures taken by the Bank

The Bank has carried out various counter measures to ensure that people, systems, processes and businesses are safeguarded at all times during this pandemic along with management of credit, liquidity and operational risk. These countermeasures included the following;

- Intensified and continuous credit monitoring, especially in relation to most affected sectors;
- Estimated and accounted for ECL in relation to management overlays/ post model adjustments including for restructuring/ rescheduling;
- Generated different scenarios during 2020 and 2021 to calculate management overlays/ post model adjustments;
- Deferrals were provided to mostly all customers who requested with few rejections. The deferral scheme has ended by 31 December 2021;
- Scenario weightages were also revisited and revised during the year 2020;
- Rigorous monitoring of key liquidity metrics and forecasts;

- Activation of the Crisis Management Team (CMT) of the Bank;
- Various procedures were compiled including shutdown scenario process manual, deferrals and waiver procedures, establishing internal SICR criteria, etc;
- Discontinuance of charging interest-on-interest for affected borrowers during deferral period or subsequent restructuring in line with CBO regulations;
- Working from home and splitting teams amongst many other measure to ensure business continuity;
- Taken various preventive measures to mitigate cyber security risk;
- Keeping employees and customers aware of potential cyber threats resulting from the current pandemic situation;
- Ensured that Bank continues to be adequately covered for any unforeseen cyber related frauds; and
- Continuous monitoring of impacts of pandemic on financial position and capital of the Bank.

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FINANCIAL RISK MANAGEMENT**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 and arises principally from the Bank's loans & advances and financing to customers, due from banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Board has delegated responsibility for the monitoring of credit risk to its Executive Risk Committee. A separate Risk Management Department, reporting to the chairman of the Executive Risk Committee, is responsible for the following:

- formulating credit risk policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- establishing the authorisation structure for the approval and renewal of credit facilities;
- reviewing and assessing credit risk. The Board's Executive Risk Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process. The process also includes approval by Risk of borrower ratings arrived at by the business units;
- limiting concentrations of exposure to counterparties, geographies and industries (for loans & advances and financing), and by issuer, market liquidity and country (for investment securities);

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- developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks;
- reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Ensuring to be within the single obligor limit and also within the concentration risk limit for various sectors, which are continuously monitored; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank's credit risk policies and procedures, with credit approval authorities delegated from the Board. Business units have their counter parts in risk management, having specialised expertise in managing risks typical to these business units. Regular audits of business units and the Bank's credit processes are undertaken by Internal Audit Department.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank follows a risk mitigation practice of identifying business cash flows as the primary take out for the loans & advances and financing extended. These cash flows are then tested for sustainability over the tenor of the credit facility and a suitable mechanism is put in place to capture the same into the borrowers account with the Bank. To cover unforeseen risks, which dry up the cash flows, additional tangible securities are taken such as real estate or equity shares. The Bank implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for loans & advances and financing are:

- mortgages over properties;
- charges over business assets such as premises, inventory and accounts receivable; and
- charges over financial instruments such as debt securities and equity securities.

Longer-term finance and lending to corporate borrowers are generally secured; revolving individual credit facilities are generally unsecured from a collateral perspective, whereas credit risk is primarily mitigated through capture of business cash flows. In addition, in order to minimise the credit loss, the Bank seeks additional collateral from the borrower as soon as impairment indicators are noticed for the relevant individual loans & advances and financing. Collateral held as security for financial assets other than loans & advances and financing, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured other than certain assets where hedging strategy is considered.

All loans & advances and financing of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans & advances and financing are classified into 6 broad classification categories: High Standard, Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. Further, as mandated by IFRS 9, the loans & advances and financing, due from banks and investment debt securities are classified into stage 1, stage 2 and stage 3 based on criteria established by the Bank in line with the requirements of CBO circular BM 1149 and its subsequent amendments.

Credit risk measurement

Loans and advances (including Loan commitments and guarantees)

Corporate and SME credit

Risk department is responsible for independent assessment and control of risks related to all corporate and Small and Medium Enterprise exposures. The credit risk associated with corporate loans is assessed based on analysis of customer and the industry in which it operates. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit reviews. The

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department reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews are also subject to same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, grades etc, and deviations, if any are highlighted. The Bank has implemented a customised Moody's CreditLens model for risk rating of corporate borrowers. The Bank maintains an accurate and consistent corporate credit rating for all its customers.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, early warning accounts, lower rated customers and public exposures. The Bank undertakes sector review of its exposure to real estate, construction, healthcare etc. A comprehensive review of the corporate credit portfolio is conducted on regular basis and provided to the executive management and Risk committee. The salient areas covered in the review include:

- Exposures downgraded / negatively migrated.
- Portfolio concentration / performance.
- Position of restructured exposures.
- Position of past due exposures.
- Syndicated exposures.
- Exposure to countries / financial institutions.

Retail credit

Retail credit department manages the credit risk in retail portfolio. Credit facilities are offered to retail customers primarily based on product programmes approved by Risk committee. The retail credit book is classified into performing and non performing loans at monthly intervals. The risk department shall prepare a list of classified accounts based on the risk rating policy of the Bank. A review of retail credit portfolio is conducted on half yearly basis and provided to the board sub committees. Salient areas covered in the review include:

- Portfolio quality
- NPA trends
- Identifying the delinquency factors.
- Recommendations for improving portfolio quality.

Loan review mechanism

Loan Review Mechanism (LRM) is an effective tool for constantly evaluating the quality of loan portfolio and to assist in improving the credit administration quality. As mandated by CBO, the Bank has put in place a proper LRM, addressing the high value accounts taking into consideration qualitative criteria such as restructured accounts, risk ratings, high risk sectors like real estate, etc. The bank has an independent loan review division whose objective is to improve the quality of bank assets and to identify any potential deterioration in the book / asset quality. Moreover, the division evaluates the effectiveness and efficiency of credit approval process, review of credit assessment, evaluate portfolio quality etc.

Credit risk grading

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank's internal Risk Rating (RR) system is developed as a 10 grade system - enumerated from RR 1 to RR 10 - to risk rate a customer and to associate a default probability to each rating grade. The ratings will also 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 will also be set in terms of how much of 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.

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Credit quality rating	Risk Rating(RR)	Classification
High Standard	RR1 to RR4	Not credit impaired on initial recognition- classified under 'Stage 1'.
Standard	RR5 to RR6	
Special Mention	RR7	
Non performing	RR8 to RR10	Credit impaired- Classified under 'Stage 3'.

Exposure to credit risk

The following table contains an analysis of gross carrying amount financial assets / off balance sheet items by credit risk grading wise measured at amortised cost.

	2021			Total RO '000
	Stage 1	Stage 2	Stage 3	
	RO '000	RO '000	RO '000	
Loans & advances and financing				
Performing loans (Risk rating 1-6)	1,931,317	329,414	-	2,260,731
Special mention loans (Risk rating 7)	-	139,710	-	139,710
Non performing loans (Risk rating 8-10)	-	-	78,414	78,414
Gross carrying amount (RO'000)	1,931,317	469,124	78,414	2,478,855
Gross carrying amount (US\$'000)	5,016,408	1,218,504	203,673	6,438,585
Loss allowance (RO'000)	8,873	21,802	46,201	76,876
Loss allowance (US\$'000)	23,047	56,628	120,003	199,678
Total loans & advances and financing, net (RO'000)	1,922,444	447,322	32,213	2,401,979
Total loans & advances and financing, net (US\$'000)	4,993,361	1,161,876	83,670	6,238,907
Corporate Loans & advances and financing				
Performing loans (Risk rating 1-6)	1,219,425	325,186	-	1,544,611
Special mention loans (Risk rating 7)	-	137,952	-	137,952
Non performing loans (Risk rating 8-10)	-	-	56,647	56,647
Gross carrying amount (RO'000)	1,219,425	463,138	56,647	1,739,210

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Gross carrying amount (US\$'000)	3,167,336	1,202,956	147,135	4,517,427
Loss allowance (RO'000)	6,767	19,854	30,102	56,723
Loss allowance (US\$'000)	17,577	51,569	78,187	147,333
Retail Loans & advances and financing				
Performing loans (Risk rating 1-6)	711,892	4,228	-	716,120
Special mention loans (Risk rating 7)	-	1,758	-	1,758
Non performing loans (Risk rating 8-10)	-	-	21,767	21,767
Gross carrying amount (RO'000)	711,892	5,986	21,767	739,645
Gross carrying amount (US\$'000)	1,849,072	15,548	56,538	1,921,158
Loss allowance (RO'000)	2,107	1,947	16,099	20,153
Loss allowance (US\$'000)	5,473	5,057	41,815	52,345
Credit related contingent items				
Performing grades (Risk rating 1-6)	168,809	36,507	113	205,429
Special mention grades (Risk rating 7)	-	-	-	-
Non performing loans(Risk rating 8-10)	-	-	-	-
Gross carrying amount (RO'000)	168,809	36,507	113	205,429
Gross carrying amount (US\$'000)	438,465	94,823	294	533,582
Loss allowance (RO'000)	394	1,109	26	1,529
Loss allowance (US\$'000)	1,023	2,880	68	3,971
Due from banks (including balances with CBO)				
Performing banks (rated)	140,737	-	-	140,737
Performing banks (unrated)	-	-	-	-
Gross carrying amount (RO'000)	140,737	-	-	140,737
Gross carrying amount (US\$'000)	365,551	-	-	365,551
Loss allowance (RO'000)	36	-	-	36
Loss allowance (US\$'000)	95	-	-	95

Investment securities

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Performing grades (Risk rating 1-6)	422,730	-	-	422,730
	-			
Gross carrying amount (RO'000)	422,730	-	-	422,730
Gross carrying amount (US\$'000)	1,098,000	-	-	1,098,000
Loss allowance (RO'000)	50	-	-	50
Loss allowance (US\$'000)	130	-	-	130
Other assets				
Performing grades (Risk rating 1-6)	27,261	197	-	27,458
Special mention grades (Risk rating 7)	-	3,166	-	3,166
Gross carrying amount (RO'000)	27,261	3,363	-	30,624
Gross carrying amount (US\$'000)	70,806	8,735	-	79,541
Loss allowance (RO'000)	23	5	-	28
Loss allowance (US\$'000)	58	13	-	71

	2020			
	Stage 1	Stage 2	Stage 3	Total
	RO '000	RO '000	RO '000	RO '000
Loans & advances and financing				
Performing loans (Risk rating 1-6)	1,769,171	296,565	-	2,065,736
Special mention loans (Risk rating 7)	-	145,359	-	145,359
Non performing loans (Risk rating 8-10)	-	-	66,402	66,402
			-	
Gross carrying amount (RO'000)	1,769,171	441,924	66,402	2,277,497
Gross carrying amount (US\$'000)	4,595,249	1,147,855	172,473	5,915,577
Loss allowance (RO'000)	8,315	18,491	31,794	58,600
Loss allowance (US\$'000)	21,597	48,029	82,582	152,208
Total loans & advances and financing, net (RO'000)	1,760,856	423,433	34,608	2,218,897
Total loans & advances and financing, net (US\$'000)	4,573,652	1,099,826	89,891	5,763,369

Corporate Loans & advances and financing

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Performing loans (Risk rating 1-6)	1,048,100	292,409	-	1,340,509
Special mention loans (Risk rating 7)	-	141,340	-	141,340
Non performing loans (Risk rating 8-10)	-	-	46,160	46,160
Gross carrying amount (RO'000)	1,048,100	433,749	46,160	1,528,009
Gross carrying amount (US\$'000)	2,722,338	1,126,620	119,897	3,968,855
Loss allowance (RO'000)	6,451	16,388	18,004	40,843
Loss allowance (US\$'000)	16,756	42,566	46,764	106,086
Retail Loans & advances and financing				
Performing loans (Risk rating 1-6)	721,071	4,156	-	725,227
Special mention loans (Risk rating 7)	-	4,019	-	4,019
Non performing loans (Risk rating 8-10)	-	-	20,242	20,242
Gross carrying amount (RO'000)	721,071	8,175	20,242	749,488
Gross carrying amount (US\$'000)	1,872,912	21,234	52,576	1,946,722
Loss allowance (RO'000)	1,864	2,103	13,790	17,757
Loss allowance (US\$'000)	4,842	5,462	35,818	46,122
Credit related contingent items				
Performing grades (Risk rating 1-6)	185,532	44,691	-	230,223
Special mention grades (Risk rating 7)	-	7,830	-	7,830
Gross carrying amount (RO'000)	185,532	52,521	-	238,053
Gross carrying amount (US\$'000)	481,901	136,418	-	618,319
Loss allowance (RO'000)	374	1,014	-	1,388
Loss allowance (US\$'000)	971	2,634	-	3,605
Due from banks (including balances with CBO)				
Performing banks (rated)	110,199	-	-	110,199
Performing banks (unrated)				-
Gross carrying amount (RO'000)	110,199	-	-	110,199
Gross carrying amount (US\$'000)	286,231	-	-	286,231

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Loss allowance (RO'000)	124	-	-	124
Loss allowance (US\$'000)	322	-	-	322
	-	-	-	-
Investment securities				
Performing grades (Risk rating 1-6)	301,162	-	-	301,162
Gross carrying amount (RO'000)	301,162	-	-	301,162
Gross carrying amount (US\$'000)	782,239	-	-	782,239
Loss allowance (RO'000)	52	-	-	52
Loss allowance (US\$'000)	134	-	-	134
	-	-	-	-
Other assets				
Performing grades (Risk rating 1-6)	21,802	-	-	21,802
Special mention grades (Risk rating 7)	-	1,709	-	1,709
Gross carrying amount (RO'000)	19,046	1,709	-	23,511
Gross carrying amount (US\$'000)	49,470	4,439	-	61,067
Loss allowance (RO'000)	34	5	-	39
Loss allowance (US\$'000)	88	13	-	101

Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk in particular, with respect to individual counterparties and groups / Industries. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. Such risks are monitored and reviewed periodically by the Executive & Credit committee.

Maximum exposure to credit risk before collateral held or other credit enhancements

Net maximum	Gross maximum	Net maximum	Gross maximum	Gross maximum	Net maximum	Gross maximum	Net maximum
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exposure 2020 US\$ '000	exposure 2020 US\$ '000	exposure 2021 US\$ '000	exposure 2021 US\$ '000		exposure 2021 RO '000	exposure 2021 RO '000	exposure 2020 RO '000	exposure 2020 RO '000
167,341	167,341	250,732	250,732	Balances with Central Bank of Oman	96,532	96,532	64,426	64,426
120,254	120,254	116,183	116,183	Due from banks	44,730	44,730	46,298	46,298
1,231,717	5,915,577	1,880,647	6,438,585	Loans & advances and financing	2,478,855	724,049	2,277,497	474,211
682,042	3,968,855	1,238,964	4,517,430	-Corporate	1,739,210	477,001	1,528,009	262,586
549,675	1,946,722	641,683	1,921,155	-Retail	739,645	247,048	749,488	211,625
782,239	782,239	1,098,000	1,098,000	Investment securities	422,730	422,730	301,162	301,162
53,909	53,909	79,542	79,542	Other assets	30,624	30,624	23,511	23,511
2,205	2,205	3,060	3,060	Derivative financial instruments	1,178	1,178	849	849
2,357,665	7,041,525	3,428,164	7,986,102	Total on balance sheet exposure	3,074,648	1,319,843	2,713,743	910,457
126,922	126,922	124,473	143,845	Loan & capital commitments	47,922	47,922	48,865	48,865
370,390	495,774	297,921	409,109	Financial guarantess and letters of credit	157,507	114,700	190,873	142,600
497,312	622,696	422,394	552,954	Total off balance sheet exposure	205,429	162,622	239,738	191,465
2,854,977	7,664,221	3,850,558	8,539,056	Grand total	3,280,077	1,482,464	2,953,481	1,101,922

The above table represents the maximum credit risk exposure to the Bank at 31 December 2021 and 2020 without taking into account the collateral held or other credit enhancements. Management is confident that the bank has suitable policies to measure and control the credit risk. In addition, credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has guidelines regarding the acceptability of types of collateral and valuation parameters. The principal collateral types for loans & advances and financing are as follows:

- Charges over business assets such as premises, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties

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Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since last year. There are no repossessed assets held by the Bank as at the balance sheet date.

The fair value of collateral that the bank holds relating to loans & advances and financing that are credit impaired at the reporting date as at 31 December 2021 was RO 48.168 million equivalent to US\$ 125.11 million (2020: RO 19.452 million equivalent to US\$ 50.53 million). Loans & advances and financing with collateral amounting RO 1,706.638 million equivalent to US\$ 4,432.83 million (2020: RO 1,851.599 million equivalent to US\$ 4,809.25 million) are not credit impaired

Modification of loans

In line with the CBO circulars issued during the year 2020 and 2021, the Bank has accepted request for deferments and waivers during the year which has ended by 31 December 2021 except for certain waivers under retail customers. In case of Corporate customers, the Bank has accrued the interest during the deferral period to the principal outstanding and either extended the original maturity period of the loan and/or increased the installments at the end of the deferment period. In case of Retail deferral customers, the Bank has extended the maturity of the loan without changing installments.

As per Bank assessment there is no de-recognition of the loans happened based on the deferment granted as the deferment is for a short term period and revised terms are not substantially different from the original terms. The Bank has determined that the impact of modificaiton was not material for the reporting period.

The following table contains an analysis of the deferred amount of principal outstanding and accrued interest / profit pertinent to loans & advances and financings of the corporate customers, who have been provided with such benefits, and the related ECL:

		Construction	Services	Manufacturing	All Others	Total
		RO '000	RO '000	RO '000	RO '000	RO '000
Stage 1	Loans & advances and financing, net	50,056	14,770	21,664	21,788	108,279
	ECL Allowance	108	80	80	123	392
	Of Which:					
	Deferred					
	Principal	4,142	2,897	10,616	16,974	34,629
	Interest	4,896	2,625	2,725	940	11,186
	ECL allowance	19	30	50	111	210
	Carrying Amount	9,018	5,492	13,291	17,803	45,604
Stage 2	Loans & advances and financing, net	67,432	97,320	16,101	47,211	228,065
	ECL Allowance	4,494	2,295	567	3,483	10,838

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Of Which:						
Deferred						
	<i>Principal</i>	57,067	11,407	14,483	26,332	109,290
	<i>Interest</i>	5,780	10,966	996	2,855	20,598
	ECL allowance	4,188	528	545	2,202	7,463
	Carrying Amount	58,659	21,846	14,935	47,865	122,426
Total	Loans & advances and financing, net	117,488	112,091	37,765	69,000	336,343
	ECL Allowance	4,602	2,375	647	3,606	11,230
Of Which:						
Deferred						
	<i>Principal</i>	61,209	14,304	25,099	43,307	143,919
	<i>Interest</i>	10,676	13,591	3,721	3,796	31,784
	ECL allowance	4,208	557	595	2,313	7,673
	Carrying Amount	67,677	27,337	28,226	70,482	168,029

The following table contains an analysis of the deferred amount of principal outstanding and accrued interest / profit pertinent to the retail loans & advances and financings of the customers, who have been provided with such benefits, and the related ECL:

Retail Portfolio	Outstanding	ECL	Principal Deferred	Interest Deferred	ECL	Carrying Amount
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Salaried	6,600	18	212	170	1	381
Irregular Salary	2,225	10	39	48	1	86
Total	8,825	28	251	218	2	467

Loans written off / recovery based on enforcement activity

The Bank has made certain technical write off of loans & advances that are still subject to enforcement activity. The contractual amount outstanding that were technically written off as at year end 31 December 2021 was RO 4.620 million (2020: RO 5.223 million) equivalent to US\$ 11.70 million (2020: US\$ 13.57 million). The Bank still seeks to recover amounts it is legally owned in full, but has been technically written off due to no reasonable expectation of full recovery.

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Expected credit loss (ECL) measurement**Overview of ECL principles**

The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward looking ECL approach. The Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12 month ECL). The 12 month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

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

Measuring ECL-Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit –impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12MPD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amount the bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD) . For example, for revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made it the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made it the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projected the PD, LGD and EAD for each future month and for each individual exposure of collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).this effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12 months PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loan. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

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The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a 'credit conversion factor' which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

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

Stage 1

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

Stage 2

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

Stage 3

Financing exposure considered credit impaired. The Bank records an allowance for lifetime ECLs.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Generating the term structure of probability of default (PD)

Risk ratings are the primary input into determination of PD term structure for credit exposures. Default and performing information is collected for each credit exposure and analysed by borrower and

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respective risk rating. Statistical models are utilized to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

ECL exposure of financial assets and off-balance sheet

The following table contains an analysis of stagewise reconciliation of gross carrying amount/ loss allowance from the opening to the closing balance of financial assets / off balance sheet items by class of financial instrument.

Movement in gross carrying amount	2021				
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US\$ '000
Loans & advances and financing at Amortised cost					
Balance at 1 January	1,769,171	441,924	66,402	2,277,497	5,915,577
Transfer between stages					
- Transfer to Stage 1	24,527	(24,409)	(118)	-	-
- Transfer to Stage 2	(27,103)	27,103	-	-	-
- Transfer to Stage 3	(549)	(8,800)	9,349	-	-
Re-measurement of outstanding	155	41,022	3,450	44,627	115,912
Financial assets originated during the period	230,453	-	-	230,453	598,581
Financial assets matured during the period	(65,332)	(7,716)	(610)	(73,658)	(191,319)
Write off	(5)	-	(59)	(64)	(166)
Balance at 31 December	1,931,317	469,124	78,414	2,478,855	6,438,585
Corporate Loans & advances and financing at Amortised cost					
Balance at 1 January	1,048,100	433,749	46,160	1,528,009	3,968,855
Transfer between stages					
- Transfer to Stage 1	19,608	(19,608)	-	-	-
- Transfer to Stage 2	(22,690)	22,690	-	-	-
- Transfer to Stage 3	-	(7,912)	7,912	-	-
Re-measurement of outstanding	17,313	41,383	2,665	61,361	159,378
Financial assets originated during the period	184,696	-	-	184,696	479,730
Financial assets matured during the period	(27,599)	(7,164)	(90)	(34,853)	(90,527)
Write off	(3)	-	-	(3)	(8)
Balance at 31 December	1,219,425	463,138	56,647	1,739,210	4,517,427

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Retail Loans & advances and financing at Amortised cost

Balance at 1 January	721,071	8,175	20,242	749,488	1,946,722
Transfer between stages					
- Transfer to Stage 1	4,919	(4,801)	(118)	-	-
- Transfer to Stage 2	(4,413)	4,413	-	-	-
- Transfer to Stage 3	(549)	(888)	1,437	-	-
Re-measurement of outstanding	(17,158)	(361)	785	(16,734)	(43,465)
Financial assets originated during the period	45,757	-	-	45,757	118,852
Financial assets matured during the period	(37,733)	(552)	(520)	(38,805)	(100,792)
Write off	(2)	-	(59)	(61)	(158)
Balance at 31 December	711,892	5,986	21,767	739,645	1,921,158

Debt investment securities at FVOCI

Balance at 1 January	301,162	-	-	301,162	782,239
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Financial assets originated during the period	121,568	-	-	121,568	315,761
Financial assets matured during the period	-	-	-	-	-
Loss from change in fair value	-	-	-	-	-
Balance at 31 December	422,730	-	-	422,730	1,098,000

Other financial assets at amortised cost

Balance at 1 January	132,001	1,709	-	133,710	347,299
Transfer between stages					
- Transfer to Stage 1	67	(67)	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Financial assets originated during the period	43,265	-	-	43,265	112,377
Financial assets matured during the period	(7,335)	1,721	-	(5,614)	(14,583)
Balance at 31 December	167,998	3,363	-	171,361	445,093

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Off balance sheet items at amortised cost

Balance at 1 January	185,532	52,521	-	238,053	618,319
Transfer between stages					
- Transfer to Stage 1	17,933	(17,933)	-	-	-
- Transfer to Stage 2	(302)	302	-	-	-
- Transfer to Stage 3	-	(580)	580	-	-
Financial assets originated during the period	40,424	-	-	40,424	104,997
Financial assets matured during the period	(74,778)	2,197	(467)	(73,048)	(189,734)
Balance at 31 December	168,809	36,507	113	205,429	533,582

Movement in gross carrying amount

	2020				
	Stage 1	Stage 2	Stage 3	Total	Total
	RO '000	RO '000	RO '000	RO '000	US\$ '000
Loans & advances and financing at Amortised cost					
Balance at 1 January	1,684,146	375,931	36,438	2,096,515	5,445,494
Transfer between stages					
- Transfer to Stage 1	82,986	(81,566)	(1,420)	-	-
- Transfer to Stage 2	(148,672)	148,718	(46)	-	-
- Transfer to Stage 3	(505)	(28,120)	28,625	-	-
Re-measurement of outstanding	53,414	44,209	3,197	100,820	261,870
Financial assets originated during the period	169,154	-	-	169,154	439,361
Financial assets matured during the period	(71,352)	(17,248)	(355)	(88,955)	(231,052)
Write off	-	-	(37)	(37)	(96)
Balance at 31 December	1,769,171	441,924	66,402	2,277,497	5,915,577

Corporate Loans & advances and financing at Amortised cost

Balance at 1 January	986,033	365,124	17,117	1,368,274	3,553,959
Transfer between stages					
- Transfer to Stage 1	75,260	(75,260)	-	-	-
- Transfer to Stage 2	(142,003)	142,003	-	-	-

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- Transfer to Stage 3	(38)	(26,805)	26,843	-	-
Re-measurement of outstanding	64,561	45,205	2,273	112,039	291,010
Financial assets originated during the period	110,272	-	-	110,272	286,420
Financial assets matured during the period	(45,985)	(16,518)	(73)	(62,576)	(162,535)
Write off	-	-	-	-	-

Balance at 31 December	1,048,100	433,749	46,160	1,528,009	3,968,855
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Retail Loans & advances and financing at Amortised cost

Balance at 1 January	698,113	10,807	19,321	728,241	1,891,535
Transfer between stages	-	-	-	-	-
- Transfer to Stage 1	7,726	(6,306)	(1,420)	-	-
- Transfer to Stage 2	(6,669)	6,715	(46)	-	-
- Transfer to Stage 3	(467)	(1,315)	1,782	-	-
Re-measurement of outstanding	(11,147)	(996)	924	(11,219)	(29,140)
Financial assets originated during the period	58,882	-	-	58,882	152,940
Financial assets matured during the period	(25,367)	(730)	(282)	(26,379)	(68,517)
Write off	-	-	(37)	(37)	(96)

Balance at 31 December	721,071	8,175	20,242	749,488	1,946,722
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Debt investment securities at FVOCI

Balance at 1 January	252,634	-	-	252,634	656,193
Transfer between stages	-	-	-	-	-
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Financial assets originated during the period	48,528	-	-	48,528	126,046
Financial assets matured during the period	-	-	-	-	-
Loss from change in fair value	-	-	-	-	-

Balance at 31 December	301,162	-	-	301,162	782,239
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Other financial assets at amortised cost

Balance at 1 January	156,911	6,843	-	161,740	420,103
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Transfer between stages					
- Transfer to Stage 1	6,048	(6,048)	-	-	-
- Transfer to Stage 2	(1,682)	1,682	-	-	-
- Transfer to Stage 3	18,007	-	-	-	-
Financial assets originated during the period	(47,283)	(768)	-	(35,667)	(92,641)
Financial assets matured during the period	-	-	-	-	-
Balance at 31 December	132,001	1,709	-	126,073	327,462

Off balance sheet items at amortised cost

Balance at 1 January	225,252	64,200	-	289,452	751,823
Transfer between stages	-	-	-	-	-
- Transfer to Stage 1	19,022	(19,022)	-	-	-
- Transfer to Stage 2	(9,400)	9,400	-	-	-
- Transfer to Stage 3	49,168	-	-	49,168	127,709
Financial assets originated during the period	(98,510)	(2,057)	-	(100,567)	(261,213)
Financial assets matured during the period	-	-	-	-	-
Balance at 31 December	185,532	52,521	-	238,053	618,319

Movement in impairment allowance and provision	2021				
	Stage 1	Stage 2	Stage 3	Total	Total
	RO '000	RO '000	RO '000	RO '000	US\$ '000

Loans & advances and financing at Amortised cost

Balance at 1 January	8,315	18,491	31,794	58,600	152,208
Transfer between stages					
- Transfer to Stage 1	1,921	(1,701)	(220)	-	-
- Transfer to Stage 2	(80)	80	-	-	-
- Transfer to Stage 3	(2)	(622)	624	-	-
Impairment charged to income statement for	(1,281)	5,554	14,003	18,276	47,470
- <i>Re-measurement of impairment allowances</i>	(1,617)	6,128	12,855	17,366	45,106
- <i>Financial assets originated during the period</i>	627	-	-	627	1,629
- <i>Financial assets matured during the period</i>	(286)	(574)	-	(860)	(2,234)
Recoveries from impairment for credit losses	-	-	(1,744)	(1,744)	(4,530)

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Interest reserve charged to interest income	-	-	3,815	3,815	9,909
Recoveries of reserved interest in interest income	-	-	(864)	(864)	(2,244)
Write off of impairment allowances	(5)	-	(59)	(64)	(166)

Balance at 31 December	8,873	21,802	46,201	76,876	199,678
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Corporate Loans & advances and financing at Amortised cost

Balance at 1 January	6,451	16,388	18,004	40,843	106,087
Transfer between stages					
- Transfer to Stage 1	640	(640)	-	-	-
- Transfer to Stage 2	(69)	69	-	-	-
- Transfer to Stage 3	-	(395)	395	-	-
				-	-
Impairment charged to income statement for	(256)	4,434	11,703	15,881	41,250
- <i>Re-measurement of impairment allowances</i>	(580)	4,867	9,392	13,679	35,531
- <i>Financial assets originated during the period</i>	492	-	-	492	1,278
- <i>Financial assets matured during the period</i>	(165)	(433)	-	(598)	(1,553)
Recoveries from impairment for credit losses	-	-	(379)	(379)	(984)
Interest reserve charged to interest income	-	-	3,074	3,074	7,984
Recoveries of reserved interest in interest income	-	-	(384)	(384)	(997)
Write off of impairment allowances	(3)	-	-	(3)	(8)

Balance at 31 December	6,766	19,856	30,102	56,724	147,337
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Retail Loans & advances and financing at Amortised cost

Balance at 1 January	1,864	2,103	13,790	17,757	46,121
Transfer between stages					
- Transfer to Stage 1	1,281	(1,061)	(220)	-	-
- Transfer to Stage 2	(11)	11	-	-	-
- Transfer to Stage 3	(2)	(227)	229	-	-
	-	-	-		
Impairment charged to income statement for	(1,025)	1,120	2,300	2,395	6,220
- <i>Re-measurement of impairment allowances</i>	(1,037)	1,261	3,463	3,687	9,577
- <i>Financial assets originated during the period</i>	135	-	-	135	351
- <i>Financial assets matured during the period</i>	(121)	(141)	-	(262)	(681)
Recoveries from impairment for credit losses	-	-	(1,365)	(1,365)	(3,546)

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Interest reserve charged to interest income	-	-	741	741	1,925
Recoveries of reserved interest in interest income	-	-	(480)	(480)	(1,247)
Write off of impairment allowances	(2)	-	(59)	(61)	(158)

Balance at 31 December	2,107	1,946	16,099	20,152	52,341
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Debt investment securities at FVOCI

Balance at 1 January	52	-	-	52	135
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	
- Transfer to Stage 2	-	-	-	-	
- Transfer to Stage 3	-	-	-	-	
Impairment charged to income statement for	(2)	-	-	(2)	(5)
- <i>Re-measurement of impairment allowances</i>	(2)	-	-	(2)	(5)
- <i>Financial assets originated during the period</i>	-	-	-	-	
- <i>Financial assets matured during the period</i>	-	-	-	-	

Balance at 31 December	50	-	-	50	130
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Other financial assets at amortised cost

Balance at 1 January	158	5	-	163	423
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	(99)	-	-	(99)	(257)
- <i>Re-measurement of impairment allowances</i>	(99)	-	-	(99)	(257)
- <i>Financial assets originated during the period</i>	-	-	-	-	
- <i>Financial assets matured during the period</i>	-	-	-	-	

Balance at 31 December	59	5	-	64	166
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Off balance sheet items at amortised cost

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Balance at 1 January	374	1,014	-	1,388	3,605
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	20	95	26	141	366
- <i>Re-measurement of impairment allowances</i>	20	95	26	141	366
- <i>Financial assets originated during the period</i>	-	-	-	-	-
- <i>Financial assets matured during the period</i>	-	-	-	-	-
Balance as at 31 December	394	1,109	26	1,529	3,971

Movement in impairment allowance and provision	2020				
	Stage 1	Stage 2	Stage 3	Total	Total
	RO '000	RO '000	RO '000	RO '000	US\$ '000

Loans & advances and financing at Amortised cost

Balance at 1 January	6,116	14,599	20,814	41,529	107,868
Transfer between stages					
- Transfer to Stage 1	3,800	(2,906)	(894)	-	-
- Transfer to Stage 2	(375)	396	(21)	-	-
- Transfer to Stage 3	(2)	(1,808)	1,810	-	-
Impairment charged to income statement for	(1,224)	8,210	10,085	17,071	44,340
- <i>Re-measurement of impairment allowances</i>	(2,000)	9,058	12,299	19,357	50,279
- <i>Financial assets originated during the period</i>	997	-	-	997	2,589
- <i>Financial assets matured during the period</i>	(221)	(848)	-	(1,069)	(2,776)
Recoveries from impairment for credit losses	-	-	(4,572)	(4,572)	(11,875)
Interest reserve charged to interest income	-	-	3,384	3,384	8,789
Recoveries of reserved interest in interest income	-	-	(992)	(992)	(2,577)
Write off of impairment allowances	-	-	(34)	(34)	(89)
Balance at 31 December	8,315	18,491	31,794	58,600	152,208

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Corporate Loans & advances and financing at Amortised cost

Balance at 1 January	4,416	12,049	8,994	25,459	66,128
Transfer between stages					
- Transfer to Stage 1	1,483	(1,483)	-	-	-
- Transfer to Stage 2	(352)	352	-	-	-
- Transfer to Stage 3		(1,391)	1,391	-	-
Impairment charged to income statement for	904	6,861	7,619	15,384	39,959
- <i>Re-measurement of impairment allowances</i>	234	7,572	7,223	15,029	39,036
- <i>Financial assets originated during the period</i>	820	-	-	820	2,129
- <i>Financial assets matured during the period</i>	(150)	(711)	-	(861)	(2,236)
Recoveries from impairment for credit losses	-	-	(1,627)	(1,627)	(4,225)
Interest reserve charged to interest income	-	-	2,554	2,554	6,634
Recoveries of reserved interest in interest income	-	-	(531)	(531)	(1,379)
Write off of impairment allowances	-	-	-	-	-
Balance at 31 December	6,451	16,388	18,004	40,843	106,087

Retail Loans & advances and financing at Amortised cost

Balance at 1 January	1,700	2,550	11,820	16,070	41,740
Transfer between stages					
- Transfer to Stage 1	2,317	(1,423)	(894)	-	-
- Transfer to Stage 2	(23)	44	(21)	-	-
- Transfer to Stage 3	(2)	(417)	419	-	-
Impairment charged to income statement for	(2,128)	1,349	2,466	1,688	4,382
- <i>Re-measurement of impairment allowances</i>	(2,234)	1,486	5,076	4,329	11,243
- <i>Financial assets originated during the period</i>	177	-		177	460
- <i>Financial assets matured during the period</i>	(71)	(137)		(208)	(540)
Recoveries from impairment for credit losses			(2,945)	(2,945)	(7,650)
Interest reserve charged to interest income			830	830	2,155
Recoveries of reserved interest in interest income			(461)	(461)	(1,197)
Write off of impairment allowances			(34)	(34)	(89)
Balance at 31 December	1,864	2,103	13,790	17,757	46,121

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Debt investment securities at FVOCI

Balance at 1 January	27	-	-	27	70
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	25	-	-	25	64
- <i>Re-measurement of impairment allowances</i>	25	-	-	25	64
- <i>Financial assets originated during the period</i>	-	-	-	-	-
- <i>Financial assets matured during the period</i>	-	-	-	-	-
Balance at 31 December	52	-	-	52	134

Other financial assets at amortised cost

Balance at 1 January	5	9	-	14	37
Transfer between stages					
- Transfer to Stage 1	6	(6)	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	147	2	-	149	386
- <i>Re-measurement of impairment allowances</i>	147	2	-	149	386
- <i>Financial assets originated during the period</i>	-	-	-	-	-
- <i>Financial assets matured during the period</i>	-	-	-	-	-
Balance at 31 December	158	5	-	163	424

Off balance sheet items at amortised cost

Balance at 1 January	238	858	-	1,096	2,847
Transfer between stages					
- Transfer to Stage 1	16	(16)	-	-	-
- Transfer to Stage 2	(23)	23	-	-	-
- Transfer to Stage 3	-	-	-	-	-

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Impairment charged to income statement for	143	149	-	292	758
- <i>Re-measurement of impairment allowances</i>	114	143	-	257	668
- <i>Financial assets originated during the period</i>	80	6	-	86	222
- <i>Financial assets matured during the period</i>	(51)		-	(51)	(132)
Balance as at 31 December	374	1,014	-	1,388	3,605

Significant increase in credit risk (SICR)

The Bank continuously monitors all assets subject to ECLs. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. Retail facilities use the number of days past due (DPD) to determine significant increase in credit risk. For non-retail facilities, internally derived credit ratings have been identified as representing the best available determinant of credit risk. The Bank assigns each facility a credit rating at initial recognition based on qualitative and quantitative information available about the borrower. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. In addition, as a backstop, the Bank considers that significant increase in credit risk occurs when an asset is more than 30 DPD. In certain cases, the Bank may also consider other events as triggers for significant increase in credit risk as determined internally.

Covid-19 impact on the Bank

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration has been given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, has not automatically lead to loans being measured on the basis of lifetime losses and considerable judgment was made to measure ECLs. When it was not possible to reflect such information in the models, post-model overlays or adjustments were considered. This is consistent with guidelines issued by CBO during the year 2021 and 2020.

The Risk department of the Bank is primarily responsible for overseeing the Bank's adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors. SME customers are evaluated based on the stability of the business owner and business and any short term cash flow mismatches are supported by the Bank.

The Bank is fully committed to help its customers as directed by the CBO especially during the pandemic period. The Bank continued to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic from time to time. The Bank continually reviews its precautionary and administrative measures in response to changes on the ground.

Impact on SICR

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

Definition of default and cure

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Bank.

Overdrafts are considered as being past due once the customer has breached the advised limit or been advised of a limit smaller than the current amount outstanding without acceptable justification.

In assessing whether the 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 is largely aligned to CBO regulatory requirements. An instrument is considered to no longer be in default (i.e. to have been cured) when it no longer meets the default criteria in line with requirements of CBO relevant to upgrading of customer from stage 3. Any upgrade is appropriately approved and validated by the internal audit department.

Macroeconomic factors, forward looking information (FLI) and multiple scenarios

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.

In its 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 date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments.

Covid 19 Impact on ECL allowance

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments (PMA) are needed. PMA and management overlays made in estimating the reported ECL as at 31 December 2021 are set out as follows:

As on the reporting date, collective provision held by the bank through management overlays amounts to 9.27% of total impairment based on latest available PD term structure, macro-economic forecasts and on exposure on certain large sector customer. This is in addition to the existing ECL provision considered on conservative practices to mitigate any unforeseen impacts in the portfolio. The Bank will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

Sensitivity analysis- ECL

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

2021			2021		
Impact on ECL	ECL		ECL	Impact on ECL	
US\$'000	'US\$'000		RO'000	RO'000	
	83,875	ECL on non impaired financial assets under IFRS 9	32,292		
(31,814)	52,061	Good scenario - 100% weighted	20,043	(12,248)	
3,440	87,315	Base scenario - 100% weighted	33,616	1,325	
19,662	103,537	Bad scenario - 100% weighted	39,862	7,570	
2020			2020		
Impact on ECL	ECL		ECL	Impact on ECL	
US\$'000	'US\$'000		RO'000	RO'000	
	73,790	ECL on non impaired financial assets under IFRS 9	28,409		
(24,040)	49,749	Good scenario - 100% weighted	19,154	(9,255)	
3,384	77,174	Base scenario - 100% weighted	29,712	1,303	
17,222	91,011	Bad scenario - 100% weighted	35,039	6,630	

For computation of ECL, the Bank considers three scenarios ie., Good, base and bad with weightage of 25%, 50% and 25% respectively for the years 2021 and 2020

The Bank carries out assessment on a portfolio basis using internal ratings for corporate and SME portfolio which are estimated on an individual basis with their respective credit risk parameters applied for ECL calculations of the same credit risk ratings and homogeneous segments of the loan portfolio. For retail portfolio similar assessment is made, however the internal ratings are replaced by Days Past Due buckets. The Bank performs an assessment on a portfolio basis for the following types of loans:

- Retail loans
- Corporate/ SMEs loans

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as Corporate/SME or retail), product type, credit risk rating both at initial recognition and current, term to maturity, collateral, etc. The different segments also reflect

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differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

Settlement risk

Settlement risk is the risk of loss due to the failure of a party to honour its obligations to deliver cash, securities or other asset as contractually agreed on the day of settlement.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as it is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, the settlement risk is mitigated through the execution of bilateral payment netting agreements.

Concentration risk

Concentration of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentration of credit risk with individuals or group of counterparty in specific locations or businesses. It also obtains appropriate security.

	2021 Loans & Due from Investment advances and banks securities financing, gross			2020 Loans & Due from Investment advances and banks securities financing, gross		
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Concentration by type						
Corporate	1,739,210	-	51,543	1,528,009	-	29,399
Personal	739,645	-	-	749,488	-	-
Sovereign	-	-	375,962	-	-	276,732
Banks	-	44,730	872	-	46,298	237
	2,478,855	44,730	428,377	2,277,497	46,298	306,368
Concentration by location						
Oman	2,471,739	19,250	417,210	2,260,729	28,025	297,324
Other GCC countries	820	15,265	3,317	849	7,241	1,022
United Kingdom	2,744	1,151	-	2,514	323	-
United States of America	-	7,542	-	-	9,049	-
Others	3,552	1,522	7,850	13,405	1,660	8,022
	2,478,855	44,730	428,377	2,277,497	46,298	306,368

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	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Concentration by type</i>						
Corporate	4,517,430	-	133,878	3,968,855	-	76,361
Personal	1,921,155	-	-	1,946,722	-	-
Sovereign	-	-	976,526	-	-	718,785
Banks	-	116,183	2,264	-	120,254	615
	6,438,585	116,183	1,112,668	5,915,577	120,254	795,761
<i>Concentration by location</i>						
Oman	6,420,100	50,000	1,083,663	5,872,023	72,792	772,270
Other GCC countries	2,130	39,649	8,615	2,205	18,808	2,655
United Kingdom	7,128	2,990	-	6,530	839	-
United States of America	-	19,590	-	-	23,504	-
Others	9,227	3,954	20,390	34,819	4,311	20,836
	6,438,585	116,183	1,112,668	5,915,577	120,254	795,761

Concentration by location for loans & advances and financing is measured based on the location of the entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. An analysis of the Bank's gross exposure to relevant segments is provided in note 37.1.7

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LIQUIDITY RISK

Liquidity risk is the risk that the Bank will face difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligation when due, under normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank has put in place an approved Contingency Liquidity Plan to facilitate management of liquidity.

Liquidity risk is managed by the Bank through closely monitoring the liquidity gap against the limit fixed.

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. In this process due care is taken to ensure that the Bank complies with all the CBO regulations.

All liquidity policies are subject to review and approval of Board of Directors.

The Bank prepares a liquidity gap report to monitor the Bank's short term liquidity position in a time horizon spanning one month. The gap is adjusted by instruments for repo or refinance and also for unavailed committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO and Executive Risk Committee every month.

Covid-19 considerations on liquidity risk

CBO provided the following liquidity and capital stimulus during last year as part of Covid 19 measures which remained applicable during the year 2021:

- Lending ratio increased by 5% from 87.5% to 92.5%. The additional lending scope to be utilized for lending to productive sector including healthcare services.
- Additional liquidity support at concessional rates by reducing interest rates on Repo operations, discounting of Government Treasury Bills, FX swap and rediscounting of a Bills of Exchange and Promissory notes.
- Tenor for Repo and Swap facilities was increased from existing to a maximum period of 3 & 6 months respectively.
- Maximum limit of the CBO SWAP facility has been increased up to 100% of a bank's net worth and tenor has been extended up to a maximum period of 1 year.

As at the reporting date the liquidity and funding position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

Exposure to liquidity risk

The lending ratio, which is the ratio of the total loans and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Bank also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets.

The Bank also maintains significant investments in liquid instruments issued by Governments and banks principally for maintaining liquidity. The Bank also has standby lines of credit to meet its obligations at any given time, if the need arises.

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2020 and 2021 was 92.5%.

Details of the reported lending ratio for the year are as follows:

	2021	2020
	Lending ratio	Lending ratio
Year end	84.86%	86.94%
Maximum for the year	88.92%	90.61%

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Minimum for the year	82.99%	82.22%
Average for the year	86.08%	87.46%

The Bank also monitors Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), calculated in accordance with Basel III framework and guidelines adopted by CBO vide circular BM 1127 and BM 1147. The Bank has also laid down internal limits and are in compliance with the regulatory requirement as at 31 December 2021.

The following table summarises the maturity profile of the Bank's assets and liabilities as on the reporting date. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

31 DECEMBER 2021	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
Assets	RO '000	RO '000	RO '000	RO '000	RO '000
Cash and balances with Central Bank of Oman	114,178	-	-	525	114,703
Due from banks	40,844	3,850	-	-	44,694
Loans & advances and financing, net	605,816	186,644	484,054	1,125,464	2,401,979
Investment securities	330,709	97,668	-	-	428,377
Other assets	36,154	-	-	-	36,154
Property & Equipment	-	-	-	26,649	26,649
Total assets	1,127,701	288,163	484,054	1,152,638	3,052,556
Liabilities and equity					
Due to banks	204,590	57,750	-	-	262,340
Customers' deposits	515,251	720,513	575,701	369,926	2,181,391
Borrowed funds	-	11,550	80,850	-	92,400
Tax Liability	8,643	-	-	-	8,643
Other liabilities	45,743	11,121	9,508	11,413	77,785
Subordinated liabilities	-	3,000	-	-	3,000
Tier 1 perpetual subordinated bonds	-	-	-	124,000	124,000
Shareholders' funds	-	-	-	302,997	302,997
Total liabilities and equity	774,227	803,934	666,059	808,336	3,052,556

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Net liquidity gap	353,474	(515,771)	(182,005)	344,302	-
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Off balance sheet items

Irrecoverable commitments to extend credit	28,862	19,060	-	-	47,922
Financial guarantees and letters of credit	102,706	35,755	16,378	2,669	157,508
Derivative products	146,896	227,094	91,404	75,543	540,937
Total off balance sheet assets	278,464	281,909	107,782	78,212	746,367

Assets	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and balances with Central Bank of Oman	296,566	-	-	1,364	297,930
Due from banks	106,088	10,000	-	-	116,088
Loans & advances and financing, net	1,573,548	484,789	1,257,287	2,923,282	6,238,906
Investment securities	858,985	253,683	-	-	1,112,668
Other assets	93,907	-	-	-	93,907
Property & Equipment	-	-	-	69,219	69,219
Total assets	2,929,094	748,472	1,257,287	2,993,865	7,928,718

Liabilities and equity

Due to banks	531,403	150,000	-	-	681,403
Customers' deposits	1,338,315	1,871,461	1,495,330	960,846	5,665,952
Borrowed funds	-	30,000	210,000	-	240,000
Tax Liability	22,450	-	-	-	22,450
Other liabilities	118,810	28,886	24,701	29,644	202,041
Subordinated liabilities	-	7,792	-	-	7,792
Tier 1 perpetual subordinated bonds	-	-	-	322,078	322,078
Shareholders' funds	-	-	-	787,002	787,002
Total liabilities and equity	2,010,978	2,088,139	1,730,031	2,099,570	7,928,718
Net liquidity gap	918,116	(1,339,667)	(472,744)	894,295	

Off balance sheet items

Irrecoverable commitments to extend credit	74,967	49,506	-	-	124,473
Financial guarantees and letters of credit	266,769	92,870	42,540	6,931	409,110
Derivative products	381,547	589,855	237,412	196,216	1,405,030
Total off balance sheet assets	723,283	732,231	279,952	203,147	1,938,613

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31 December 2020	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
<i>Assets</i>	RO '000	RO '000	RO '000	RO '000	RO '000
Cash and balances with Central Bank of Oman	78,495	-	-	525	79,020
Due from banks	21,149	25,025	-	-	46,174
Loans & advances and financing, net	449,999	226,125	447,543	1,095,230	2,218,897
Investment securities	232,265	74,103	-	-	306,368
Other assets	-	-	-	29,154	29,154
Property and Equipment	-	-	-	22,864	22,864
<i>Total assets</i>	781,908	325,253	447,543	1,147,773	2,702,477
<i>Liabilities and equity</i>					
Due to banks	121,239	-	14,005	-	135,244
Customers' deposits	419,292	650,083	574,867	280,412	1,924,654
Borrowed funds	-	28,875	130,900	-	159,775
Tax Liability	6,458	-	-	-	6,458
Other liabilities	31,271	19,634	13,445	11,646	75,996
Subordinated liabilities	-	9,000	3,000	-	12,000
Tier 1 perpetual subordinated bonds	-	-	124,000	-	124,000
Shareholders' funds	-	-	-	264,350	264,350
<i>Total liabilities and equity</i>	578,260	707,592	860,217	556,408	2,702,477
<i>Net liquidity gap</i>	203,648	(382,339)	(412,674)	591,365	
<i>Off balance sheet items</i>					
Irrecoverable commitments to extend credit	12,952	34,228	-	-	47,180
Financial guarantees and letters of credit	138,807	30,960	20,283	823	190,873
Derivative products	310,329	89,722	192,865	30,993	623,909
Total off balance sheet assets	462,087	154,910	89,722	31,816	861,962

<i>Assets</i>	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
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ANNUAL FINANCIAL STATEMENTS WERE APPROVED BY THE BOARD OF DIRECTORS ON 26 Jan 2022

Cash and balances with Central Bank of Oman	203,883	-	-	1,364	205,247
Due from banks	54,932	65,000	-	-	119,932
Loans & advances and financing, net	1,168,829	587,338	1,162,449	2,844,753	5,763,369
Investment securities	603,287	192,474	-	-	795,761
Other assets	68,462	7,262	-	-	75,724
Property and Equipment	-	-	-	59,387	59,387
<i>Total assets</i>	2,099,393	852,074	1,162,449	2,905,504	7,019,420
<i>Liabilities and equity</i>					
Due to banks	314,906	-	36,377	-	351,283
Customers' deposits	1,089,070	1,688,527	1,493,161	728,343	4,999,101
Borrowed funds	-	75,000	340,000	-	415,000
Tax Liability	16,774	-	-	-	16,774
Other liabilities	81,224	50,997	34,922	30,249	197,392
Subordinated liabilities	-	23,377	7,792	-	31,169
Tier 1 perpetual subordinated bonds	-	-	322,078	-	322,078
Shareholders' funds	-	-	-	686,623	686,623
<i>Total liabilities and equity</i>	1,501,974	1,837,901	2,234,330	1,445,215	7,019,420
<i>Net liquidity gap</i>	597,419	(985,827)	(1,071,881)	1,460,289	
<i>Off balance sheet items</i>					
Irrecoverable commitments to extend credit	33,642	88,903	-	-	122,545
Financial guarantees and letters of credit	360,538	80,416	52,683	2,138	495,775
Derivative products	806,050	233,045	500,948	80,500	1,620,543
Total off balance sheet assets	1,200,230	402,364	553,631	82,638	2,238,863

The table below summarizes the maturity profile of the Bank's financial liabilities based on expected undiscounted payment obligations.

Upto	three	Above	three	Above	one	More	than	Total
months	or	on	months	to	year	to	five	five
demand		twelve		years		five	years	
		months						

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31 DECEMBER 2021	RO '000	RO '000	RO '000	RO '000	RO '000
Due to banks	204,590	57,750	-	-	262,340
Customers' deposits	515,251	720,512	575,702	369,926	2,181,391
Borrowed funds	-	11,550	80,850	-	92,400
Subordinated liabilities	-	3,000	-	-	3,000
Total liabilities	719,841	792,812	656,552	369,926	2,539,131
Credit related commitments	28,862	19,060	-	-	47,922
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to banks	531,403	150,000	-	-	681,403
Customers' deposits	1,338,315	1,871,461	1,495,330	960,846	5,665,952
Borrowed funds	-	30,000	210,000	-	240,000
Subordinated liabilities	-	7,792	-	-	7,792
Total liabilities	1,869,718	2,059,253	1,705,330	960,846	6,595,147
Credit related commitments	74,967	49,506	-	-	124,473

	Upto months demand	three or on months twelve months	Above three months to year years	one More to five five years	than Total
<i>31 December 2020</i>	RO '000	RO '000	RO '000	RO '000	RO '000
Due to banks	121,239	-	14,005	-	135,244
Customers' deposits	419,292	650,083	574,867	280,412	1,924,654
Borrowed funds	-	28,875	130,900	-	159,775
Subordinated liabilities	-	9,000	3,000	-	12,000
<i>Total liabilities</i>	<i>540,531</i>	<i>687,958</i>	<i>722,772</i>	<i>280,412</i>	<i>2,231,673</i>
<i>Credit related commitments</i>	<i>12,952</i>	<i>34,228</i>	-	-	<i>47,180</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to banks	314,906	-	36,377	-	351,283
Customers' deposits	1,089,070	1,688,527	1,493,161	728,343	4,999,101
Borrowed funds	-	75,000	340,000	-	415,000
Subordinated liabilities	-	23,377	7,792	-	31,169

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<i>Total liabilities</i>	1,403,976	1,786,904	1,877,330	728,343	5,796,553
<i>Credit related commitments</i>	33,642	88,904	-	-	122,546

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MARKET RISK

Market risk is the exposure to loss resulting from the changes in the interest rates, foreign currency exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return to risk. There are no commodity price risk exposures to the Bank.

Management of market risks

The Bank separates its exposure to market risk between trading and non trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is transferred by Treasury to the trading book. Accordingly, the foreign exchange position is treated as a part of the Bank's trading portfolio for risk management purposes. Foreign currency risk is monitored and managed by the Bank through Mid Office to monitor the market risk, and the risk is managed by putting in place Market Risk Management procedures and implementing limit framework, reporting tools like Currency Position Report, Risk Analysis of Currency Position, Breach Analysis Report, and Dealer Limit Breach report.

Overall authority for market risk is vested with ALCO. The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Executive Risk Committee of the Board). The market risk policies are periodically reviewed to keep it up to date with the market developments.

Exposure to interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate and re-pricing tenure of rate sensitive assets and liabilities.

The effective interest rate (effective yield) of a monetary financial instrument is the rate used in a present value calculation which results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is provided in this note. The Bank also assesses interest rate risk by assessing the interest rate impact (both earnings perspective and economic value perspective) as per Basel-II guidelines communicated by CBO by applying interest rate shock of 200 bps and takes measures to reduce the impact. The Bank also assesses impact on earnings of interest rate shock of 200 bps.

	Effective annual interest rate	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Non - Sensitive to interest rate RO '000	Total RO '000
31 DECEMBER 2021							
Assets							
Cash and balances with Central Bank of Oman	1.50%	-	-	-	-	114,703	114,703
Due from banks	2.19%	40,844	3,850	-	-	-	44,694
Loans & advances and financing, net	5.19%	1,218,819	323,086	316,494	493,169	50,411	2,401,979
Investment securities	3.94%	144,896	14,819	145,099	111,611	11,952	428,377
Property and equipment		-	-	-	-	26,649	26,649
Other assets		-	-	-	-	36,154	36,154
Total assets		1,404,559	341,755	461,593	604,780	239,869	3,052,556
Liabilities and equity							
Due to banks	0.79%	243,090	19,250	-	-	-	262,340
Customers' deposits	3.09%	496,068	815,033	715,662	400	154,228	2,181,391
Borrowed funds	2.29%	92,400	-	-	-	-	92,400
Tax liability		-	-	-	-	8,643	8,643
Other liabilities		-	-	-	-	77,785	77,785
Subordinated loan	4.92%	-	3,000	-	-	-	3,000
Tier 1 perpetual subordinated bonds	7.50%	-	-	-	-	124,000	124,000
Shareholders' funds		-	-	-	-	302,997	302,997
Total liabilities and equity		831,558	837,283	715,662	400	667,653	3,052,556
Total interest rate sensitivity gap		573,001	(495,528)	(254,069)	604,380	(427,784)	-
Cumulative interest rate sensitivity gap		573,001	77,473	(176,596)	427,784	-	-

31 DECEMBER 2021		US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Assets							
Cash and balances with Central Bank of Oman	1.50%	-	-	-	-	297,930	297,930
Due from banks	2.19%	106,088	10,000	-	-	-	116,088
Loans & advances and financing, net	5.19%	3,165,763	839,184	822,063	1,280,958	130,939	6,238,907
Investment securities	3.94%	376,353	38,491	376,881	289,899	31,044	1,112,668

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Property and equipment	-	-	-	-	69,219	69,219
Other assets	-	-	-	-	93,906	93,906
Total assets	3,648,204	887,675	1,198,944	1,570,857	623,038	7,928,718
Liabilities and equity						
Due to banks	0.79%	631,403	50,000	-	-	681,403
Customers' deposits	3.09%	1,288,487	2,116,969	1,858,866	1,038	5,665,952
Borrowed funds	2.29%	240,000	-	-	-	240,000
Tax liability	-	-	-	-	22,450	22,450
Other liabilities	-	-	-	-	202,041	202,041
Subordinated liabilities	4.92%	-	7,792	-	-	7,792
Tier 1 perpetual subordinated bonds	7.50%	-	-	-	322,078	322,078
Shareholders' funds	-	-	-	-	787,002	787,002
Total liabilities and equity		2,159,890	2,174,761	1,858,866	1,038	7,928,718
Total interest rate sensitivity gap		1,488,314	(1,287,086)	(659,922)	1,569,819	(1,111,125)
Cumulative interest rate sensitivity gap		1,488,314	201,228	(458,694)	1,111,125	-
		0.000	0.000	0.000	0.000	0.000

	Effective annual interest rate	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Non - Sensitive to interest rate RO '000	Total RO '000
<i>31 December 2020</i>							
<i>Assets</i>							
Cash and balances with Central Bank of Oman	1.50%	500	-	-	-	78,520	79,020
Due from banks	2.06%	36,549	9,625	-	-	-	46,174
Loans & advances and financing, net	5.44%	922,352	498,057	331,804	466,684	-	2,218,897
Investment securities	4.12%	75,000	-	75,140	150,928	5,300	306,368
Other assets	-	-	-	-	-	29,154	29,154
Property and equipment	-	-	-	-	-	22,864	22,864
<i>Total assets</i>		1,034,401	507,682	406,944	617,612	135,838	2,702,477
<i>Liabilities and equity</i>							
Due to banks	1.17%	135,244	-	-	-	-	135,244
Customers' deposits	3.42%	389,606	729,065	686,255	400	119,328	1,924,654
Borrowed funds	3.32%	159,775	-	-	-	-	159,775
Tax liability	-	6,458	-	-	-	-	6,458
Other liabilities	-	68	-	-	-	75,928	75,996
Subordinated liabilities	5.41%	-	-	-	-	12,000	12,000
Tier 1 perpetual subordinated bonds	7.50%	-	-	124,000	-	-	124,000

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Shareholders' funds	-	-	-	-	264,350	264,350
<i>Total liabilities and equity</i>	691,151	729,065	810,255	400	471,606	2,702,477
<i>Total interest rate sensitivity gap</i>	343,250	(221,383)	(403,311)	617,212	(335,768)	-
<i>Cumulative interest rate sensitivity gap</i>	343,250	121,867	(281,444)	335,768	-	-

<i>31 December 2020</i>	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Assets</i>						
Cash and balances with Central Bank of Oman	1.50%	1,299	-	-	203,948	205,247
Due from banks	2.06%	94,932	25,000	-	-	119,932
Loans & advances and financing, net	5.44%	2,395,719	1,293,655	861,829	1,212,166	-
Investment securities	4.12%	194,805	-	195,169	392,021	13,766
Other assets		-	-	-	-	75,724
Property and equipment		-	-	-	-	59,387
<i>Total assets</i>		2,686,755	1,318,655	1,056,998	1,604,187	352,825
<i>Liabilities and equity</i>						
Due to banks	1.17%	351,283	-	-	-	351,283
Customers' deposits	3.42%	1,011,964	1,893,675	1,782,480	1,039	309,943
Borrowed funds	3.32%	415,000	-	-	-	-
Tax liability		16,774	-	-	-	-
Other liabilities		177	-	-	-	197,215
Subordinated liabilities	5.41%	-	-	-	-	31,169
Tier 1 perpetual subordinated bonds	7.50%	-	-	322,078	-	-
Shareholders' funds		-	-	-	-	686,623
<i>Total liabilities and equity</i>		1,795,198	1,893,675	2,104,558	1,039	1,224,950
<i>Total interest rate sensitivity gap</i>		891,557	(575,020)	(1,047,560)	1,603,148	(872,125)
<i>Cumulative interest rate sensitivity gap</i>		891,557	316,537	(731,023)	872,125	-

Exposure and sensitivity analysis

Basel-II Accord has recommended for assessing the impact of interest rate risk by applying upto 200 bps interest rate sensitivity. Earning impact of a 200 basis points parallel shift in interest rate is provided below:

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
20,177	25,492	Impact of +200 bps interest rate increase	9,814	7,768

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(20,177)	(25,492)	Impact of -200 bps interest rate decrease	(9,814)	(7,768)
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Exposure to equity price risk

The Bank's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Bank's local equity portfolio has a correlation to the performance of MSM 30 Index and international equity portfolio for other GCC countries has a correlation with their respective stock market index. The table below shows the changes in fair value +/- 5% in the MSM 30 Index and other GCC countries stock index;

2020 US\$ '000	2021 US\$ '000	Security as per country	2021 RO '000	2020 RO '000
434	1,035	MSM - Oman +5% impact	398	167
(434)	(1,035)	MSM - Oman -5% impact	(398)	(167)
151	431	Other GCC countries +5% impact	166	58
(151)	(431)	Other GCC countries -5% impact	(166)	(58)

Investment value risk is the risk of reduction in the market value of the Bank's portfolio as a result of diminishment in the market value of individual investment. The responsibility for management of investment value risk rests with the Investment division under the supervision and guidance of the Credit Investment Committee and Executive Risk Committee of the Bank. The Bank's investments are governed by an investment policy approved by the Board of Directors. The rating and price of the instruments are monitored on a regular basis and necessary actions are taken to reduce exposure if needed. The portfolio of investments is revalued at market price to ensure that unrealised losses, if any, on account of reduction in the market value of the investments remains within the acceptable parameters.

Exposure to currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within established limits. The Bank also monitors foreign currency risk as per requirements and the same was within regulatory limit as at 31 December 2021.

The Bank had the following net exposures denominated in foreign currencies:

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
77,343	138,513	US Dollar	53,328	29,777
205	39	Euro	15	79
660	4,743	UAE Dirham	1,826	254
231	505	GBP Sterling	194	89

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4,068	2,517	Others	969	1,566
82,507	146,317		56,332	31,765

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Changes in the non parity foreign currency rates as at 31 December 2021 on net assets is considered negligible.

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OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises due to variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

The Bank's objective is to manage operational risk to avoid/reduce financial losses to the Bank by establishing necessary controls, systems and procedures. The Bank recognises that over controlled environment may affect the Bank's business and earnings besides adding to costs. Therefore, the Bank aims at effective management of operational risk through control optimisation and well established systems, methods and governance framework.

The primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards in the following areas for management of operational risk:

- Clear reporting lines
- Proper delegation of powers
- Appropriate segregation of duties and authorisation of transactions through a maker checker system and authorisation matrix reporting lines
- Ownership, reconciliation and monitoring of accounts
- Documentation of controls and processes
- Compliance with regulatory and other legal requirements
- Periodic assessment of the operational risks faced and evaluating the adequacy of controls and procedures to address the risks identified
- Reporting of operational losses and incidents triggering operational losses and remedial action
- Development of contingency plans
- Training, skill upgradation and professional development
- Ethical and business standards
- Risk mitigation through insurance, wherever desirable

Compliance with Bank standards is complemented by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit and Compliance Committee and senior management of the Bank. The Bank has a comprehensive Operational Risk Management Framework by which the Bank has put in place Operational Risk Management Policy, Operational Risk Self Assessment (ORSA) Policy, Operational Risk Loss Event Reporting Framework, Maintenance of Operational Risk Loss Data Base.

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The Bank carries out a comprehensive Business Continuity (BCP) test on an annual basis

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ESTIMATION OF FAIR VALUES

The following summarises the major methods and assumptions used in estimating the fair values of financial assets and financial liabilities.

Loans & advances and financing

The fair value of loans & advances and financings receivables is estimated at the present value of future cash flows, discounted at the market value of interest at the reporting date. These financial assets fall under level 3 category of fair value hierarchy levels. Carrying value of loans and advances & financing are considered to approximate their fair value.

Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows. Investments having short term maturities are not discounted.

Current account balances due to and due from banks

The carrying values of current account balances due to and due from banks is considered to be a reasonable estimate of fair value due to their short term in nature.

Other financial instruments

The fair value of all on balance sheet financial instruments are considered to approximate their book values.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included under other assets and other liabilities.

Fair Value Measurement recognised in Statement of Financial Position

Level 1 - Quoted prices (unadjusted) in active markets.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

The following table shows an analysis of financial instruments other than derivative instruments recorded at fair value by level of the fair value hierarchy.

	31 December 2021			31 December 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets:	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000

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Investments at FVTPL	872	-	872	697	-	697
Investments at FVOCI	73,324	354,180	427,505	61,053	244,618	305,671
<i>Derivative financial instruments</i>						
Interest rate swaps	-	1,178	1,178	-	849	849
Forward foreign exchange contracts	703	-	703	1,813	-	1,813
	74,900	355,358	430,258	63,563	245,467	309,030
Financial liabilities						
<i>Derivative financial instruments</i>						
Interest rate swaps	-	2,797	2,797	-	5,890	5,890
Forward foreign exchange contracts	37	-	37	98	-	98
	37	2,797	2,834	98	5,890	5,988
Financial assets:	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Investments at FVTPL	2,265	-	2,265	1,810	-	1,810
Investments at FVOCI	190,454	919,948	1,110,403	158,579	635,372	793,951
Held to maturity						-
<i>Derivative financial instruments</i>						-
Interest rate swaps	-	3,060	3,060	-	2,205	2,205
Forward foreign exchange contracts	1,825	-	1,825	4,709	-	4,709
	194,544	923,008	1,117,553	165,098	637,577	802,675
Financial liabilities						
<i>Derivative financial instruments</i>						
Interest rate swaps	-	7,264	7,264	-	15,299	15,299
Forward foreign exchange contracts	96	-	96	255	-	255
	96	7,264	7,360	255	15,299	15,554

There are no transfers between levels of fair value measurement hierarchy during the years 2021 and 2020.

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DERIVATIVES HELD FOR RISK MANAGEMENT AND HEDGE ACCOUNTING

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments.

Derivative product types

Swaps are contractual agreements between two parties to exchange interest based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate

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interest payments based on a notional value in a single currency.

Forward contracts are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forward contracts are customised contracts transacted through various process.

Derivatives held for hedging purposes

Fixed interest rates on principal amount of loans and investments are normally hedged using interest rate swaps whose repayments dates are the same as of hedge item. These contracts are designated as fair value hedges since inception.

Derivatives held for risk management purposes

The Bank has entered into interest rate swaps and forward contracts for risk management purposes.

The Bank ensures that its exposure is kept to acceptable level by buying and selling of foreign currencies in forward market when necessary to address short term imbalances.

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of fixed-rate investments in respect of a USD LIBOR interest rate (for the impact of IBOR reform on hedge accounting, see below). Interest rate swaps are matched to specific purchases of investments.

The Bank hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria. The Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship.

When fair value hedge accounting is applied by the Bank, the Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item.

The fair value of the swaps is disclosed in other assets (liabilities) and the carrying amount of the hedged items included in the line item 'Investments' in the statement of financial position. Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other operating income.

The carrying amount of the hedged items are included in the line item 'Investments' on the statement of financial position with the notional amount totalling to RO 28.309 million (2020: RO 31.888 million) equivalent to US\$ 73.53 million (2020: 82.83 million). These hedged items comprise of debt instruments which are held as FVOCI.

Cash flow hedge

The Bank uses interest rate swaps to hedge the cash flow volatility risk on its borrowed funds and pay fixed/receive floating interest rate in respect of USD LIBOR interest rate (for the impact of IBOR reform on hedge accounting, see below). The Bank hedges interest rate risk to the extent of benchmark interest rate exposure on its floating-rate notes to mitigate variability in its cash flows. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria. The carrying amount of the hedged items is included in the line item "Borrowed funds" on the

statement of financial position with the notional amount totalling to RO 21.175 million (2020: RO 98.175 million) equivalent to US\$ 55.00 million (2020: US\$ 255.00 million).

Interest rate benchmark reform (IBOR reform)

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (LIBORs) with alternative nearly risk-free rates (referred to as 'LIBOR reform'). The Bank's LIBOR exposures are primarily in USD LIBOR. The alternative reference rate for USD LIBOR is the Secured Overnight Financing Rate (SOFR). USD LIBOR was planned to be discontinued by the end of year 2021.

The Bank is managing the transition to new benchmark rates for affected financial assets and financial liabilities by actively reviewing existing contracts indexed to LIBOR to ensure appropriate fallback provisions is contained in all contracts. The main risks to which the Bank is exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers and updating of contractual terms related to the reform. Financial risk is predominantly limited to interest rate risk, the impact of which is a result of basis risk due to uncertainty around timing difference between transitioning of USD assets and USD liabilities. Although it is too early to predict the exact financial impact the transition will have, based on Bank's internal assessment, it is expected that the impact will not be material.

The main risks to which the Bank is exposed to as a result of IBOR reform are operational. In order to manage these risks, the Bank has evaluated potential changes to market infrastructures on its risk framework, models, systems, products and processes. The Bank has completed the review and identification of existing contracts warranting amendments by insertion of appropriate fall back clauses related to cessation of LIBOR. Accordingly, the Bank has engaged an external legal consultant to advice on such amendments to all relevant contracts. All contracts being entered during the interim period, until cessation, are and will be executed with robust fallback language. To overcome the limitations of existing IT system, the Bank is in the process of upgrading its system by selecting a suitable vendor. The Bank is also implementing effective strategies in areas such as communication with customers and training to staff to minimize any risks from the transition.

Although the financial impact from differing transition timelines of effected assets/liabilities and the potential for mismatch in their pricing cannot be reliably estimated, based on the repricing profile of the Bank's assets and liabilities, the Bank believes that the impact of this change is not material to the financial statements. This is based on the assumption that the replacement rate along with relevant spread is not materially different from the existing LIBOR based rates and that the Bank will be able to negotiate similar spreads with the customers/ counterparties.

The table below discloses amounts of non-derivative financial assets and liabilities and derivative contracts at 31 December 2021 which are based on USD LIBOR, along with maturities beyond the cessation date of 30 June 2023.

	<i>in RO'000</i>		<i>in US\$'000</i>	
	Total	Post Cessation Date of 30 June 2023	Total	Post Cessation Date of 30 June 2023
NON-DERIVATIVE FINANCIAL ASSETS				
Due from other banks	23,100	-	60,000	-
Loans and advances to customers	482,938	217,590	1,254,385	565,168
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	506,038	217,590	1,314,385	565,168

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NON-DERIVATIVE FINANCIAL LIABILITIES

Due to other banks	144,943	71,225	376,476	185,000
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TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES

144,943	71,225	376,476	185,000
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DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps: notional amounts	208,806	116,777	542,353	303,316
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TOTAL DERIVATIVE FINANCIAL INSTRUMENTS

208,806	116,777	542,353	303,316
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The table below shows the positive and negative fair values of derivative financial instruments, together with the undiscounted cash flows analysed by the term of their maturity.

	Nominal cash flows by term to maturity					
	Assets	Liabilities	Notional cash flows	Within 3 months	3 to 12 months	Over 1 year
At 31 December 2021	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Derivatives for hedging:						
Interest rate swaps						
-Fair value hedge	1,178	2,675	168,381	-	26,579	141,802
-Cash flow hedge	-	122	40,425	19,250	11,550	9,625
Derivatives:						
Forward purchase contracts	107	23	166,065	63,823	94,482	7,760
Forward sales contracts	596	14	166,066	63,823	94,483	7,760
	1,881	2,834	540,937	146,896	227,094	166,947
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Derivatives for hedging:						
Interest rate swaps						
-Fair value hedge	3,060	6,948	437,353	-	69,037	368,316
-Cash flow hedge	-	316	105,000	50,000	30,000	25,000
Derivatives:						
Forward purchase contracts	277	60	431,338	165,774	245,409	20,156

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Fair values are included under other assets where positive and other liabilities where negative.

BASIC AND DILUTED EARNINGS PER SHARE

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US\$ '000	US\$ '000		RO '000	RO '000
62,254	71,703	Profit for the year	27,606	23,968
(24,157)	(24,157)	Less: AT1 Interest Paid during the year	(9,300)	(9,300)
38,097	47,546	Profit Attributable to Equity Shareholders	18,306	14,668
1,652,175	1,882,826	Weighted average number of outstanding shares during the year (in 000's)	1,882,826	1,652,175
2	3	Earnings per share (cents / baizas)	10	9

Basic and diluted earnings per share are same as the Bank has not issued any instruments which would have a diluting impact on earnings per share when exercised.

Earnings per share for the current and prior period have been calculated using the weighted average shares outstanding for the current period. The weighted average shares outstanding for the period ended 31 December 2021 were 1,882,260 which included rights issue of 300,000,000 shares at par in March 2021

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NET ASSETS VALUE PER SHARE

Net assets value per share is calculated by dividing the net assets with the issued and paid up shares at end of the year.

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
686,623	787,002	Net assets	302,997	264,350
1,649,657	1,949,657	Issued and paid up shares (in 000's) at 31 December	1,949,657	1,649,657
42	40	Net asset value per share (US cents /baizas)	155	160

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CONTINGENT LIABILITIES AND COMMITMENTS

2020 US\$ '000	2021 US\$ '000	2021 RO '000	2020 RO '000
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323,429	304,293	Financial guarantees*	117,153	124,520
172,345	104,816	Letters of credit	40,354	66,353
122,545	124,473	Loan commitments	47,922	47,180
4,377	19,372	Capital commitments	7,458	1,685
622,696	552,954		212,887	239,738

*As at December 31, 2021, guarantees of RO 3.363 million were issued against counter guarantees of other banks

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LOANS & ADVANCES AND FINANCING, NET

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
		Conventional Banking		
3,415,312	3,840,532	Corporate lending	1,478,605	1,314,895
1,573,065	1,547,108	Retail lending	595,636	605,630
4,988,377	5,387,640	Loans & advances, gross	2,074,241	1,920,525
0.000	0.000		-	0.000
		Islamic Banking		
553,543	676,895	Corporate financing	260,605	213,114
373,657	374,050	Retail financing	144,009	143,858
927,200	1,050,945	Financing, gross	404,614	356,972
0.000	0.000		-	0.000
5,915,577	6,438,585	Loans & advances and financing, gross	2,478,855	2,277,497
(152,208)	(199,678)	Loans and financing impairment (including reserve interest and profit)* - Refer note 37.1.7	(76,876)	(58,600)
5,763,369	6,238,907		2,401,979	2,218,897

*Reserve interest forms part of specific provision for the purpose of IFRS.

The table below analyses the concentration of gross loans & advances and financing by economic sector:

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
1,946,722	1,921,158	Personal loans	739,645	749,488

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1,047,428	1,054,709	Construction	406,063	403,260
616,472	675,381	Wholesale and retail trade	260,022	237,342
705,557	827,198	Services	318,471	271,639
410,312	448,826	Financial institutions	172,798	157,970
304,713	391,331	Manufacturing	150,662	117,315
270,638	216,482	Electricity, gas and water	83,345	104,195
303,944	385,336	Mining and quarrying	148,354	117,018
209,951	383,714	Transport and communication	147,730	80,831
18,486	18,485	Non-resident lending	7,117	7,117
25,067	61,100	Government	23,523	9,651
56,287	54,865	Other	21,125	21,671
5,915,577	6,438,585		2,478,855	2,277,497

Restructured loans

31 December 2021

Asset classification as per CBO norms	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 SOCI as per IFRS 9	Reserve interest as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)- (5)	(7)=(3)-(4)-(10)	(8) = (3)- (5)	(9)	(10)
Classified as performing	Stage 1	54,556	-	818	(818)	54,556	53,738	-	-
	Stage 2	45,742	998	3,431	(2,433)	46,744	44,311	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		102,298	998	4,249	(3,251)	101,300	98,049	-	-

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Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	29,423	20,233	13,701	6,533	9,190	15,722	-	2,514
Sub total		29,423	20,233	13,701	6,533	9,190	15,722	-	2,514
Total	Stage 1	54,556	-	818	(818)	54,556	53,738	-	-
	Stage 2	47,742	998	3,431	(2,433)	46,744	44,311	-	-
	Stage 3	29,423	20,233	13,701	6,533	9,190	15,722	-	2,514
	Total	131,721	21,231	17,950	3,282	110,490	113,771	-	2,514
	Total (US \$'000)	342,132	55,145	46,625	8,526	286,987	295,510	-	6,529

*Net of provisions and reserve interest as per CBO norms

**The difference between CBO provision along with reserve interest and IFRS 9 provision is appropriated from the retained earnings net of tax.

31 December 2020

Asset classification as per CBO norms	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 SOCI as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4) - (10)	(8) = (3) - (5)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	45,101	998	2,688	(1,690)	44,103	42,413	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		45,101	998	2,688	(1,690)	44,103	42,413	-	-
Classified as	Stage 1	-	-	-	-	-	-	-	-

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non-performing									
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	22,632	13,379	8,522	4,857	7,768	14,110	-	1,485
Sub total		22,632	13,379	8,522	4,857	7,768	14,110	-	1,485
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	45,101	998	2,688	(1,690)	44,103	42,413	-	-
	Stage 3	22,632	13,379	8,522	4,857	7,768	14,110	-	1,485
	Total	67,733	14,377	11,210	3,167	51,871	56,523	-	1,485
	Total (US \$'000)	175,930	37,343	29,117	8,226	134,730	146,813	-	3,857

*Net of provisions and reserve interest as per CBO norms

**The difference between CBO provision along with reserve interest and IFRS 9 provision is appropriated from the retained earnings net of tax.

INVESTMENT SECURITIES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
		Equity investments:		
1,810	2,265	Measured at FVTPL	872	697
11,712	12,403	Designated at FVOCI	4,775	4,509
13,522	14,668		5,647	5,206
		Debt investments:		
782,239	1,098,000	Designated at FVOCI	422,730	301,162
795,761	1,112,668	Total investment securities	428,377	306,368

The table below summarises the concentration of investments by various sectors.

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
		Equity investments:		

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A. Measured at FVTPL			
Quoted investments - Oman			
400	- Banking and investment sector	-	154
405	- Service sector	-	156
112	- Manufacturing	-	43
917	-	-	353
Quoted investments - Foreign			
125	155 Banking and investment sector	60	48
47	196 Manufacturing	76	18
327	655 Construction	252	126
394	1,259 Service sector	484	152
893	2,265	872	344
1,810	2,265 Total	872	697

B. Designated at FVOCI			
Quoted investments - Oman			
1,881	1,791 Manufacturing	690	724
2,855	1,184 Banking and investment sector	456	1,099
5,216	3,078 Service sector	1,185	2,008
9,952	6,053	2,330	3,831
Quoted investments - Foreign			
229	1,715 Manufacturing	660	88
491	2,110 Banking and investment sector	812	189
816	2,265 Service sector	872	314
224	- Construction	-	87
-	260 Trading	100	-
1,760	6,350	2,445	678
11,712	12,403 Total	4,775	4,509

2020 US\$ '000	2021 Debt investments: US\$ '000 Designated at FVOCI	2021 RO '000	2020 RO '000
	Quoted investments - Oman		
361,745	464,323 Government development bonds	178,764	139,272
79,055	54,465 Government bonds	20,969	30,436
78,821	81,613 Government sukuks	31,421	30,346
33,940	45,243 Services	17,419	13,067
13,036	28,631 Banking and investment	11,023	5,019
566,597	674,275	259,596	218,140
	Quoted investments - Foreign		
2,140	2,114 Government bonds	814	824
-	- Services	-	-
-	- US treasury bills	-	-
18,697	45,256 Banking and investment	17,423	7,198
20,837	47,370	18,237	8,022
194,805	376,355 Unquoted Oman Government Treasury bills	144,897	75,000
782,239	1,098,000 Total	422,730	301,162
795,761	1,112,668 Total investments	428,377	306,368

In 2021, the Bank received dividends of RO 0.166 million which is equivalent to US\$ 0.43 million (2020: RO 0.305 million equivalent to US\$ 0.79 million) which was recognised as other operating income

The Bank has designated certain equity investments as FVOCI as these are investments that are not held for trading and intended to be held for long term for better dividend yields. Certain investments were sold during the year on account of lesser yields. The cumulative loss recognised in other comprehensive income amounted to RO 1.539 million (2020: RO 0.031 million) equivalent to US\$ 3.99 million (2020: US\$ 0.08 million)

LEASES

The Bank has taken various branch premises on lease rental basis which will fall under IFRS 16. The leases typically run for an average period of 5 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Similarly, the Bank has taken certain office equipment (printers) on lease basis which are of short term in nature/leases of low value items. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases. Disclosure about leases for which the Bank is a lessee is as below:

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I. Right of Use Assets

Right-of-use assets related to leased branch and office premises are presented within property and equipment. Refer note 10 for the detailed breakup of those assets.

II. Amounts recognised in statement of comprehensive income

2020 US\$'000s	2021 US\$'000s	Particulars	2021 RO'000s	2020 RO'000s
247	171	Interest on lease liabilities	66	95
177	465	Expenses relating to short-term leases	179	68
538	60	Expenses relating to leases of low-value assets	23	207
962	696	Total	268	370

III. Amounts recognised in statement of cash flows

Refer to the cash flow statement for the payment made towards lease liabilities in the year 2021 and 2020.

IV. Lease Liabilities

Refer note 37.2.2 for maturity analysis of liabilities as at 31 December 2021 and 31 December 2020.

DIVIDEND PAID AND PROPOSED

The Board of Directors have recommended cash dividend of 7.5 baizas per share which is subject to approval of the shareholders at the ensuing Annual General Meeting and the regulatory authorities (31 December 2020: cash dividend of 5 baizas per share). The cash dividend 2020 was approved by the shareholders in Annual General Meeting and was paid in 2021.

TIER 1 PERPETUAL SUBORDINATED BONDS

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
322,078	322,078	Tier 1 perpetual subordinated bonds	124,000	124,000

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In 2017, the Bank has issued perpetual subordinated bonds - Additional Tier 1 (AT1) capital instruments (the "Tier 1 Securities") amounting to RO 50 million (USD 129.87 million). They are redeemable by the Bank at its sole discretion on 11 October 2022 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

In 2018, the Bank has further issued perpetual subordinated bonds AT1 capital instruments (the "Tier 1 Securities") amounting to RO 54 million (USD 140.26 million). They are redeemable by the Bank at its sole discretion on 17 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

In June 2019, the Bank has further issued perpetual subordinated bonds AT1 capital instruments (the "Tier 1 Securities") amounting to RO 20 million (USD 51.95 million). They are redeemable by the Bank at its sole discretion on 13 June 2024 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

The issuances of Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.50% per annum. 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. Interest is non cumulative and payable at Bank's discretion.

The Bank at its sole discretion may elect not to distribute interest on these Tier 1 perpetual subordinated bonds and this is not considered as an event of default. If the Bank does not pay interest on the Tier 1 perpetual subordinated bonds on the relevant interest payment date, the Bank shall not have any obligation to make any subsequent payment in respect of any unpaid interest payment amount. If interest is not paid as a consequence of a non payment event or a non payment election, then from the date of such Non-Payment Event or Non-Payment Election (the "Dividend Stopper Date"), the Bank will not, so long as any of the Bonds are outstanding declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, the ordinary shares of the Bank, ranking junior to or pari passu with the Tier 1 capital securities unless and until it has paid one interest payment in full on the Tier 1 capital securities. The Tier 1 capital securities also allow the bank to write down (in whole or in part) any amounts due to the holders of the securities under certain circumstances.

These securities form part of Tier 1 Capital of the Bank and comply with Basel III and CBO regulations (BM 1114).

Legal cases

As at 31 December 2021, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore does not consider it necessary to make any additional provisions in this regard.

INTEREST EXPENSE/ UNRESTRICTED INVESTMENT ACCOUNT HOLDERS' SHARE OF PROFIT AND PROFIT EXPENSE

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
116,491	127,408	Time deposits	49,052	44,849
26,421	22,673	Demand and saving deposits	8,729	10,172
14,408	10,283	Borrowings	3,959	5,547
8,275	10,439	Inter-bank deposits	4,019	3,186
165,595	170,803		65,759	63,754

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18,647	26,158	Islamic customer deposits	10,071	7,179
600	-	Islamic investment	-	231
19,247	26,158		10,071	7,410
184,842	196,961	Total	75,830	71,164

FINANCIAL INSTRUMENTS CLASSIFICATION

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

Particulars	Note	2021				
		Amortised cost	FVOCI-debt instruments	FVOCI-equity instruments	FVTPL	Total
		RO '000	RO '000	RO '000	RO '000	RO '000
Financial assets						
Cash and balances with Central Bank of Oman	5	114,703	-	-	-	114,703
Due from banks	6	44,694	-	-	-	44,694
Loans & advances and financing, net	7	2,401,979	-	-	-	2,401,979
Investment securities	9	-	422,730	4,775	872	428,377
Other assets - acceptances and interest and profit receivable	13	30,625	-	-	-	30,625
Derivatives - positive mark-to-market		-	-	-	1,178	1,178
Financial liabilities						
Due to banks	14	262,340	-	-	-	262,340
Customers' deposits	15	2,181,391	-	-	-	2,181,391
Borrowed funds	16	92,400	-	-	-	92,400
Subordinated liabilities	18	3,000	-	-	-	3,000
Other liabilities - acceptances and interest and profit payable	17	55,961	-	-	-	55,961
Derivatives - negative mark-to-market		-	1,828	-	968	2,797

Particulars	Note	2021				
		Amortised	FVOCI-debt	FVOCI-equity	FVTPL	Total

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		cost	instruments	instruments		
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets						
Cash and balances with Central Bank of Oman	5	297,930	-	-	-	297,930
Due from banks	6	116,088	-	-	-	116,088
Loans & advances and financing, net	7	6,238,907	-	-	-	6,238,907
Investment securities	9	-	1,098,000	12,403	2,265	1,112,668
Other assets - acceptances and interest and profit receivable	13	79,544	-	-	-	79,544
Derivatives - positive mark-to-market		-	-	-	3,060	3,060
Financial liabilities						
Due to banks	14	681,403	-	-	-	681,403
Customers' deposits	15	5,665,952	-	-	-	5,665,952
Borrowed funds	16	240,000	-	-	-	240,000
Subordinated liabilities	18	7,792	-	-	-	7,792
Other liabilities - acceptances and interest and profit payable	17	145,353	-	-	-	145,353
Derivatives - negative mark-to-market		-	4,749	-	2,515	7,264

2020						
Particulars	Note	Amortised cost	FVOCI-debt instruments	FVOCI-equity instruments	FVTPL	Total
		RO '000	RO '000	RO '000	RO '000	RO '000
Financial assets						
Cash and balances with Central Bank of Oman	5	79,020	-	-	-	79,020
Due from banks	6	46,174	-	-	-	46,174
Loans & advances and financing, net	7	2,218,897	-	-	-	2,218,897
Investment securities	9	-	301,162	4,509	697	306,368
Other assets - acceptances and interest and profit receivable	13	23,511	-	-	-	23,511
Derivatives - positive mark-to-market		-	-	-	849	849

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Financial liabilities

Due to banks	14	135,244	-	-	-	135,244
Customers' deposits	15	1,924,654	-	-	-	1,924,654
Borrowed funds	16	159,775	-	-	-	159,775
Subordinated liabilities	18	12,000	-	-	-	12,000
Other liabilities - acceptances and interest and profit payable	17	55,264	-	-	-	55,264
Derivatives - negative mark-to-market		-	5,153	-	737	5,890

2020

Particulars	Note	Amortised cost	FVOCI-debt instruments	FVOCI-equity instruments	FVTPL	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000

Financial assets

Cash and balances with Central Bank of Oman	5	205,247	-	-	-	205,247
Due from banks	6	119,932	-	-	-	119,932
Loans & advances and financing, net	7	5,763,369	-	-	-	5,763,369
Investment securities	9	-	782,239	11,712	1,810	795,761
Other assets - acceptances and interest and profit receivable	13	61,067	-	-	-	61,067
Derivatives - positive mark-to-market		-	-	-	2,205	2,205

Financial liabilities

Due to banks	14	351,283	-	-	-	351,283
Customer deposits	15	4,999,101	-	-	-	4,999,101
Borrowed funds	16	415,000	-	-	-	415,000
Subordinated liabilities	18	31,169	-	-	-	31,169
Other liabilities - acceptances and interest and profit payable	17	143,543	-	-	-	143,543
Derivatives - negative mark-to-market		-	13,385	-	1,914	15,299

COMPARATIVE FIGURES

Corresponding figures have been rearranged and reclassified in order to conform with the presentation for the current year for the purpose of comparison and for better presentation. Such

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reclassifications are not considered material and do not affect previously reported net income or owner's equity.

Loans By Type	Thousands/Omani Rial/Audited	
	31/12/2021 Value	31/12/2020 Value
LOANS BY TYPE : CONSOLIDATED		
PARTICULARS		
LOANS BY TYPE		
Others	2,074,241	1,920,525
Gross loans and advances	2,074,241	1,920,525
Expected credit loss allowance	62,011	48,700
Contractual interest not recognised	6,527	4,196
Net loans and advances	2,005,703	1,867,629

			Thousands/Omani Rial/Audited
Islamic Financing Receivables	Consumer finance	Corporate finance	Consolidated
	Consolidated	Consolidated	Financial assets, category
	01/01/2021-31/12/2021	01/01/2021-31/12/2021	01/01/2021-31/12/2021
ISLAMIC FINANCING RECEIVABLES [LINEITEMS]			
Gross islamic financing receivables	144,009	260,605	404,614
Less:Impairment loss			8,338
Net islamic financing receivables			396,276
MOVEMENT IN ALLOWANCE ON IMPAIRMENT LOSS FOR ILSLAMIC FINANCING RECEIVABLES			
At the beginning of the period			5,704
Impairment for credit losses			2,634
At the end of the period			8,338

01/01/2021-31/12/2021 Gross Carrying Amount	Thousands/Omani Rial/Audited			
	Stage 1	Stage 2	Stage 3	Total
GROSS CARRYING AMOUNT : CONSOLIDATED				
PARTICULARS				
At the beginning of the period	2,387,866	496,154	66,402	2,950,422
New assets originated or purchased	435,710	0	0	435,710
Assets derecognised or repaid	147,445	3,798	1,077	152,320
Transfers to Stage 1	42,527	(42,409)	(118)	
Transfers to Stage 2	(27,405)	27,405	0	
Transfers to Stage 3	(549)	(9,380)	9,929	
Re-measurement of outstanding	155	41,022	3,450	44,627
Amounts written off	5		59	64
At the end of the period	2,690,854	508,994	78,527	3,278,375

01/01/2020-31/12/2020 Gross Carrying Amount	Thousands/Omani Rial/Audited			
	Stage 1	Stage 2	Stage 3	Total
GROSS CARRYING AMOUNT : CONSOLIDATED				
PARTICULARS				
At the beginning of the period	2,318,943	446,974	36,438	2,802,355
New assets originated or purchased	71,889	(2,825)	0	69,064
Assets derecognised or repaid	71,352	17,248	355	88,955
Transfers to Stage 1	108,056	(106,636)	(1,420)	
Transfers to Stage 2	(159,754)	159,800	(46)	
Transfers to Stage 3	66,670	(28,120)	28,625	67,175
Re-measurement of outstanding	53,414	44,209	3,197	100,820
Amounts written off			37	37
At the end of the period	2,387,866	496,154	66,402	2,950,422

01/01/2021-31/12/2021 Expected Credit Losses (ECL)	Thousands/Omani Rial/Audited Total
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	Stage 1	Stage 2	Stage 3	
EXPECTED CREDIT LOSSES (ECL) : CONSOLIDATED PARTICULARS				
At the beginning of the period	8,899	19,510	31,794	60,203
New assets originated or purchased	627			627
Assets derecognised or repaid	286	574		860
Transfers to Stage 1	1,921	(1,701)	(220)	
Transfers to Stage 2	(80)	80		
Transfers to Stage 3	(2)	(622)	624	
Re-measurement of impairment allowances/changes in the parameters	(1,698)	6,223	12,881	17,406
Recoveries from impairment for credit losses			(1,744)	(1,744)
Interest reserve charged to interest income			3,815	3,815
Recoveries of reserved interest in interest income			(864)	(864)
Amounts written off	5		59	64
At the end of the period	9,376	22,916	46,227	78,519

01/01/2020-31/12/2020	Thousands/Omani Rial/Audited			
Expected Credit Losses (ECL)	Stage 1	Stage 2	Stage 3	Total
EXPECTED CREDIT LOSSES (ECL) : CONSOLIDATED PARTICULARS				
At the beginning of the period	6,386	15,466	20,814	42,666
New assets originated or purchased	1,077	6		1,083
Assets derecognised or repaid	272	848		1,120
Transfers to Stage 1	3,822	(2,928)	(894)	
Transfers to Stage 2	(398)	419	(21)	
Transfers to Stage 3	(2)	(1,808)	1,810	
Re-measurement of impairment allowances/changes in the parameters	(1,714)	9,203	12,299	19,788
Recoveries from impairment for credit losses			3,384	3,384
Interest reserve charged to interest income			(992)	(992)
Recoveries of reserved interest in interest income			(4,572)	(4,572)
Amounts written off			34	34
At the end of the period	8,899	19,510	31,794	60,203

01/01/2021-31/12/2021	Thousands/Omani Rial/Audited		
Expected Credit Losses	As per CBO norms	As per IFRS 9	Difference
ECL_LAYOUT3 : CONSOLIDATED PARTICULARS			
Impairment loss charged to profit & loss	14,680	14,680	
Provisions required as per CBO norms / held as per IFRS 9	75,068	78,519	(3,451)
Gross NPL ratio in %	300.000%	300.000%	
Net NPL ratio in %	100.000%	100.000%	

01/01/2020-31/12/2020	Thousands/Omani Rial/Audited		
Expected Credit Losses	As per CBO norms	As per IFRS 9	Difference
ECL_LAYOUT3 : CONSOLIDATED PARTICULARS			
Impairment loss charged to profit & loss	15,335	14,402	933
Provisions required as per CBO norms / held as per IFRS 9	72,117	60,203	11,914
Gross NPL ratio in %	300.000%	300.000%	
Net NPL ratio in %	100.000%	200.000%	(100.000%)

31/12/2021	Thousands/Omani Rial/Audited						
Expected Credit Losses	Gross carrying amount	CBO Provision	IFRS 9 Provisions	Difference between CBO and IFRS 9	Net carrying amount	IFRS 9 Reserve interest	CBO Reserve interest RO'000
ECL_LAYOUT4 : CONSOLIDATED CBO CLASSIFICATION & IFRS 9 CLASSIFICATION							

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STANDARD					
Stage 1	1,931,317	27,542	8,873	18,669	1,922,444
Stage 2	329,414		9,927	(9,927)	319,487
Sub Total	2,260,731	27,542	18,800	8,742	2,241,931
SPECIAL MENTION					
Stage 2	139,710		11,875	(11,875)	127,835
Sub Total	139,710		11,875	(11,875)	127,835
SUBSTANDARD					
Stage 3	1,121	313	501	(188)	620
Sub Total	1,121	313	501	(188)	620
DOUBTFUL					
Stage 3	5,399	2,580	3,351	(771)	2,048
Sub Total	5,399	2,580	3,351	(771)	2,048
LOSS					
Stage 3	71,894	61,428	42,349	19,079	29,545
Sub Total	71,894	61,428	42,349	19,079	29,545
OTHER ITEMS NOT COVERED UNDER CBO CIRCULAR BM 977 AND RELATED INSTRUCTIONS					
Stage 1	660,181		503	(503)	659,678
Stage 2	39,870		1,114	(1,114)	38,756
Stage 3	113		26	(26)	87
Sub Total	700,164		1,643	(1,643)	698,521
SUB TOTAL					
Stage 1	2,591,498	27,542	9,376	18,166	2,582,122
Stage 2	508,994		22,916	(22,916)	486,078
Stage 3	78,527	64,321	46,227	18,094	32,300
Total	3,179,019	91,863	78,519	13,344	3,100,500

31/12/2020							Thousands/Omani Rial/Audited
Expected Credit Losses	Gross carrying amount	CBO Provision	IFRS 9 Provisions	Difference between CBO and IFRS 9	Net carrying amount	IFRS 9 Reserve interest	CBO Reserve interest RO'000
ECL_LAYOUT4 : CONSOLIDATED CBO CLASSIFICATION & IFRS 9 CLASSIFICATION							
STANDARD							
Stage 1	1,769,171	25,935	8,315	17,620	1,760,856		
Stage 2	296,565		8,356	(8,356)	288,209		
Sub Total	2,065,736	25,935	16,671	9,264	2,049,065		
SPECIAL MENTION							
Stage 2	145,359		10,135	(10,135)	135,224		
Sub Total	145,359		10,135	(10,135)	135,224		
SUBSTANDARD							
Stage 3	810	230	405	(175)	405		16
Sub Total	810	230	405	(175)	405		16
DOUBTFUL							
Stage 3	21,899	10,864	6,605	4,259	15,294		760
Sub Total	21,899	10,864	6,605	4,259	15,294		760
LOSS							
Stage 3	43,693	40,356	24,784	15,572	18,909		4,492
Sub Total	43,693	40,356	24,784	15,572	18,909		4,492
OTHER ITEMS NOT COVERED UNDER CBO CIRCULAR BM 977 AND RELATED INSTRUCTIONS							
Stage 1	611,072		584	(584)	610,488		
Stage 2	54,216		1,019	(1,019)	53,197		
Sub Total	665,288		1,603	(1,603)	663,685		
SUB TOTAL							
Stage 1	2,380,243	25,935	8,899	17,036	2,371,344		
Stage 2	496,140		19,510	(19,510)	476,630		
Stage 3	66,402	51,450	31,794	19,656	34,608		5,268
Total	2,942,785	77,385	60,203	17,182	2,882,582		5,268

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Investment	Thousands/Omani Rial/Audited	
	31/12/2021	31/12/2020
	Value	Value
INVESTMENT : CONSOLIDATED		
PARTICULARS		
INVESTMENT SECURITIES - SUMMARY		
Held at FVTPL	872	697
Held at FVOCI	427,505	305,671
Total investment securities	428,377	306,368

Held at FVOCI	Thousands/Omani Rial/Audited	
	31/12/2021	31/12/2020
	Carrying / fair value	Carrying / fair value
HELD AT FVOCI : CONSOLIDATED		
PARTICULARS		
HELD AT FVOCI		
Q UOTED		
Government debt securities	231,968	200,878
Debt securities issued by the banks	28,446	12,217
Other debt securities	17,419	13,067
Equity securities	4,775	4,509
Total quoted	282,608	230,671
UN-Q OUTED		
Treasury Bills	144,897	75,000
Total unquoted	144,897	75,000
Gross investments	427,505	305,671
Net investments	427,505	305,671

Held at FVTPL	Thousands/Omani Rial/Audited	
	31/12/2021	31/12/2020
	Carrying / fair value	Carrying / fair value
HELD AT FVTPL : CONSOLIDATED		
PARTICULARS		
HELD AT FVTPL		
Q UOTED		
Equity securities	872	697
Total quoted	872	697
UN-Q OUTED		
Total	872	697