National Bank of Oman SAOG

FINANCIAL STATEMENTS

31 December 2021

Draft – Subject to CBO approval

PO Box 751 PC 112 Ruwi Sultanate of Oman.

National Bank of Oman SAOG

Draft – Subject to CBO approval

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

2020 USD'000	***2021 USD'000***		*Notes*	***2021 RO'000***	*2020 RO'000*
		ASSETS			
499,888	**799,662**	Cash and balances with Central Banks	4	**307,870**	192,457
246,016	**297,883**	Due from banks and other money market placements (net)	5	**114,685**	94,716
7,500,940	**8,022,457**	Loans, advances and Islamic financing assets (net)	6	**3,088,646**	2,887,862
888,839	**1,161,501**	Financial investments	7	**447,178**	342,203
162,514	**155,564**	Property and equipment	8	**59,892**	62,568
137,260	**163,107**	Other assets	9	**62,796**	52,845
9,435,457	**10,600,174**	**TOTAL ASSETS**		**4,081,067**	3,632,651
		LIABILITIES AND EQUITY			
		LIABILITIES			
749,930	**773,322**	Due to banks and other money market deposits	10	**297,729**	288,723
6,564,101	**7,578,525**	Customers' deposits and unrestricted investment accounts	11	**2,917,732**	2,527,179
500,000	**500,000**	Euro medium term notes	12	**192,500**	192,500
219,345	**271,365**	Other liabilities	13	**104,476**	84,448
24,852	**34,221**	Taxation	14	**13,175**	9,568
8,058,228	**9,157,433**	**TOTAL LIABILITIES**		**3,525,612**	3,102,418
		EQUITY			
422,325	**422,325**	Share capital	15	**162,595**	162,595
89,519	**89,519**	Share premium	16	**34,465**	34,465
140,774	**140,774**	Legal reserve	17	**54,198**	54,198
4,062	**13,855**	Other reserves	18	**5,334**	1,564
-	**15,626**	Proposed cash dividend	20	**6,016**	-
420,549	**460,642**	Retained earnings		**177,347**	161,911
1,077,229	**1,142,741**	**TOTAL EQUITY ATTRIBUTABLE TO THE SHARE HOLDERS OF THE BANK**		**439,955**	414,733
300,000	**300,000**	Tier 1 Perpetual Bond	19	**115,500**	115,500
1,377,229	**1,442,741**	**TOTAL EQUITY**		**555,455**	530,233
9,435,457	**10,600,174**	**TOTAL LIABILITIES AND EQUITY**		**4,081,067**	3,632,651

The financial statements were authorised for issue on 26 January 2022 in accordance with a resolution of the Board of Directors.

Chairperson

Chief Executive Officer

The attached notes 1 to 37 form part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2021

2020 USD'000	2021 USD'000		Notes	2021 RO'000	2020 RO'000
423,873	**430,099**	Interest income	22	**165,588**	163,191
(198,174)	**(204,052)**	Interest expense	23	**(78,560)**	(76,297)
225,699	**226,047**	**Net interest income**		**87,028**	86,894
23,208	**25,268**	Income from Islamic financing and investment activities		**9,728**	8,935
(12,792)	**(13,439)**	Unrestricted investment account holders' share of profit		**(5,174)**	(4,925)
10,416	**11,829**	**Net Income from Islamic financing and investment assets**		**4,554**	4,010
236,115	**237,876**	**Net interest income and net income from Islamic financing and Investment assets**		**91,582**	90,904
33,610	**48,990**	Fee and commission income (net)	24	**18,861**	12,940
34,076	**33,527**	Other operating income	25	**12,908**	13,119
303,801	**320,393**	**Operating income**		**123,351**	116,963
(100,101)	**(101,000)**	Staff costs	26	**(38,885)**	(38,539)
(48,868)	**(47,971)**	Other operating expenses	27	**(18,469)**	(18,814)
(16,813)	**(15,958)**	Depreciation	8	**(6,144)**	(6,473)
(165,782)	**(164,929)**	**Total operating expenses**		**(63,498)**	(63,826)
138,019	**155,464**	**Profit from operations before impairment losses and tax**		**59,853**	53,137
(81,374)	**(62,299)**	**Total impairment losses on financial instruments (net)**	28.5	**(23,985)**	(31,329)
56,645	**93,165**	**Profit before tax**		**35,868**	21,808
(9,506)	**(14,522)**	Taxation	14	**(5,591)**	(3,660)
47,139	**78,643**	**Profit for the year**		**30,277**	18,148
		OTHER COMPREHENSIVE INCOME			
		Items that will not be reclassified to profit or loss			
(8,896)	10,644	Equity investments at FVOCI – net change in fairvalue		**4,098**	(3,425)
719	(1,190)	Tax effect of equity investments at FVOCI – net change in fairvalue	14	**(458)**	277
		Items that are or maybe reclassified subsequently to profit or loss			
(112)	338	Debt instruments at FVOCI - net change in fairvalue		**130**	(43)
(8,289)	**9,792**	**Other comprehensive income / (expense) for the year**		**3,770**	(3,191)
38,850	**88,435**	**Total comprehensive income for the year**		**34,047**	14,957
0.01	**0.03**	Earnings per share: (USD) – Basic and diluted – (RO)	30	**0.013**	0.006

The attached notes 1 to 37 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to equity holders of Bank								
	Share capital (note15) RO'000	***Share premium (note 16) RO'000***	***Legal reserve (note17) RO'000***	***Other reserves (note 18) RO'000***	***Proposed cash dividend (note 20) RO'000***	***Retained earnings RO'000***	***Total RO'000***	***Tier 1 perpetual bond (note19) RO'000***	***Total equity RO'000***
Balance at 1 January 2021	**162,595**	**34,465**	**54,198**	**1,564**	**-**	**161,911**	**414,733**	**115,500**	**530,233**
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**30,277**	**30,277**	**-**	**30,277**
Other comprehensive income for the year	**-**	**-**	**-**	**3,657**	**-**	**-**	**3,657**	**-**	**3,657**
Net losses on derecognition of financial instruments measured at FVOCI (net of tax)	**-**	**-**	**-**	**113**	**-**	**(113)**	**-**	**-**	**-**
Payment of interest on tier 1 perpetual bond	**-**	**-**	**-**	**-**	**-**	**(8,462)**	**(8,462)**	**-**	**(8,462)**
Issuance cost on tier 1 perpetual bonds	**-**	**-**	**-**	**-**	**-**	**(250)**	**(250)**	**-**	**(250)**
Proposed dividend	-	-	-	-	**6,016**	**(6,016)**	-	-	-
Balance at 31 December 2021	**162,595**	**34,465**	**54,198**	**5,334**	**6,016**	**177,347**	**439,955**	**115,500**	**555,455**
Balance at 31 December 2021 – In USD'000	**422,325**	**89,519**	**140,774**	**13,855**	**15,626**	**460,642**	**1,142,741**	**300,000**	**1,442,741**
Balance at 1 January 2020	162,595	34,465	54,198	(764)	27,316	158,893	436,703	115,500	552,203
Net profit for the year	-	-	-	-	-	18,148	18,148	-	18,148
Other comprehensive income for the year	-	-	-	(3,706)	-	-	(3,706)	-	(3,706)
Net losses on derecognition of financial instruments measured at FVOCI (net of tax)	-	-	-	515	-	(515)	-	-	-
Dividend paid	-	-	-	-	(27,316)	-	(27,316)	-	(27,316)
Payment of interest on tier 1 perpetual bond	-	-	-	-	-	(9,096)	(9,096)	-	(9,096)
Transfer to impairment reserve	-	-	-	5,519	-	(5,519)	-	-	-
Balance at 31 December 2020	162,595	34,465	54,198	1,564	-	161,911	414,733	115,500	530,233
Balance at 31 December 2020 – In USD'000	422,325	89,519	140,774	4,062	-	420,549	1,077,229	300,000	1,377,229

The attached notes 1 to 37 form part of these financial statements.

National Bank of Oman SAOG

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

2020 USD'000	***2021 USD'000***		*Notes*	***2021 RO'000***	*2020 RO'000*
		OPERATING ACTIVITIES			
56,645	**93,164**	Profit before taxation		**35,868**	21,808
		Adjustments for:			
16,813	**15,958**	Depreciation	8	**6,144**	6,473
81,373	**62,299**	Allowance for credit losses - financial instruments	28.5	**23,985**	31,329
(1,621)	**(1,684)**	Amortisation of Premium		**(648)**	(624)
(13)	**(2,044)**	Profit on sale of property and equipment		**(787)**	(5)
(244)	**(2,314)**	Profit on investments at FVTPL	25	**(891)**	(94)
(8)		Translation differences		**-**	(3)
(4,187)	**(3,244)**	Dividend income	25	**(1,249)**	(1,612)
148,758	**162,135**	**Operating cash flows before changes in operating assets and liabilities**		**62,422**	57,272
43,894	**(17,029)**	Due from banks and other money market placements		**(6,556)**	16,899
(39,452)	**114,455**	Due to banks and other money market deposits		**44,065**	(15,189)
(307,031)	**(583,415)**	Loans, advances and islamic financing assets		**(224,615)**	(118,207)
(31,427)	**(25,846)**	Other assets		**(9,951)**	(12,099)
(11,271)	**1,014,423**	Customers' deposits		**390,553**	(4,340)
37,997	**52,021**	Other liabilities		**20,028**	14,629
(158,532)	**716,744**	**Cash from / (used in) operating activities**		**275,946**	(61,035)
(18,995)	**(5,052)**	Taxes paid	14	**(1,945)**	(7,313)
(177,527)	**711,692**	**Cash from / (used in) operating activities**		**274,001**	(68,348)
		INVESTING ACTIVITIES			
(143,268)	**(329,481)**	Purchase of investments		**(126,850)**	(55,158)
24,836	**69,590**	Proceeds from sale of investments		**26,792**	9,562
(10,470)	**(9,387)**	Purchase of property and equipment	8	**(3,614)**	(4,031)
117	**2,423**	Proceeds from disposal of property and equipment		**933**	45
4,187	**3,244**	Dividend received	25	**1,249**	1,612
(124,598)	**(263,611)**	**Net cash used in investing activities**		**(101,490)**	(47,970)
		FINANCING ACTIVITIES			
(70,951)	**-**	Payment of dividend	20	**-**	(27,316)
(23,626)	**(22,629)**	Interest on Tier 1 perpetual bond		**(8,712)**	(9,096)
(94,577)	**(22,629)**	**Net cash used in financing activities**		**(8,712)**	(36,412)
(396,702)	**425,452**	**INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS**		**163,799**	(152,730)
659,930	**263,229**	Cash and cash equivalents at the beginning of the year		**101,343**	254,073
263,228	**688,681**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**265,142**	101,343
		REPRESENTING:			
498,589	**798,364**	Cash and balances with Central Banks	4	**307,370**	191,957
199,016	**233,631**	Due from Banks maturing within three months		**89,948**	76,621
(434,374)	**(343,314)**	Due to Banks maturing within three months		**(132,176)**	(167,235)
263,228	**688,681**			**265,142**	101,343

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, wholesale, investment and Islamic banking services within the Sultanate of Oman and through overseas branches in the United Arab Emirates and Egypt. In Oman the bank operates under banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt the branches operate under a commercial bank licences given by the respective Central Banks. The bank is in the process of closing down its operations in Egypt and it is expected that the closure process will be completed during the year 2022. The bank is head quartered at Azaiba, Governorate of Muscat, Sultanate of Oman and its registered address is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The Bank's equity shares are listed on the Muscat Stock Exchange. Perpetual bonds and bonds issued under EMTN programme are listed in the Euronext Dublin.

2 BASIS OF PREPARATION

2.1 Basis of measurement

The financial statements are prepared under the historical cost basis except for the following:

- financial instruments classified as trading and at fair value through profit or loss (FVTPL)
- financial instruments at fair value through other comprehensive income;
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. 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 2.4.

2.2 Functional and presentation currency

These financial statements are presented in Rial Omani rounded to the nearest thousand Rial Omani, except when otherwise indicated. The functional currencies of the Bank's operations are as follows:

- Sultanate of Oman: Rial Omani
- United Arab Emirates: UAE Dirham
- Egypt: US Dollar

The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.3 Statement of compliance

The financial statements of the Bank have been prepared in accordance with IFRS, applicable regulations of the Central Bank of Oman, applicable requirements of the Commercial Companies Law of Oman 2019 and the Capital Market Authority of the Sultanate of Oman.

The Bank also prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by CBO, the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of CBO. The IBWs financial statements are then converted into IFRS compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

2 BASIS OF PREPARATION (CONTINUED)

2.4 Significant accounting judgments and estimates

In preparation of the Bank's financial statements, management requires to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances, any revisions to estimates are recognised propestively. The significant judgments and estimates are as follows:

2.4.1 Financial Instruments

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2021 and 31 December 2020 pertain to IFRS 9, Financial instruments which impact:

Measurement of expected credit losses :

Below are the significant judgements used in measurement of expected credit losses :

1) Establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition
2) Determining the methodology for incorporating forward-looking information into the measurement of ECL
3) Selection and approval of models used to measure ECL.
4) Determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

2.4.2 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

2.4.3 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Bank establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

2 BASIS OF PREPARATION (CONTINUED)

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

For the year ended 31 December 2021, the Bank has adopted all of new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2021. The following amendments to existing standards and framework have been applied by the Bank in preparation of these financial statements.

- Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Effective from 1 January 2021, the Bank has implemented Interest Rate Benchmark Reform - Phase 2 amendments which address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial instruments, financial liabilities and lease liabilities and hedge accounting.

The amendments require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability. In addition it provides certain exceptions to hedge accounting requirements.

Other amendments and interpretations apply for the first time in 2021, but do not have an impact on the Bank's financial statements.

2.6 Standards issued but not yet effective

The number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; the Bank as not early adopted the new and amended standards in preparing these financial statements. These standards are not expected to have a significant impact on the Bank's financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

3.1 Financial instruments – initial recognition

a. Date of recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

b. Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

c. Measurement categories of financial assets and liabilities

The Bank has applied IFRS 9 and classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments at the fair value designation.

3.2 Financial assets and liabilities

3.2.1 Due from Banks, Loans and advances to customers, Financial investments at amortised cost

The Bank only measures due from banks, loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.1 Due from Banks, Loans and advances to customers, Financial investments at amortised cost (continued)

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

Business model assessment

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

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

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

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

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.1 Due from Banks, Loans and advances to customers, Financial investments at amortised cost (continued)

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. 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 in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

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

3.2.2 Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

3.2.3 Debt instruments at FVOCI

The Bank applies the category of debt instruments measured at FVOCI when both of the following conditions are met:
• The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
• The contractual terms of the financial asset meet the SPPI test

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

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

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

3.2.4 Equity instruments at FVOCI

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

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

3.2.5 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.6 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

• The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis
Or
• The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
Or
• The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

3.2.7 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, under IFRS 9 – an ECL provision.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

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 on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 28.

3.2.8 Financial liabilities

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 profit or loss.

The amount presented separately in OCI related to changes in own credit risk of a designated financial liability at FVTPL are not recycled to profit or loss, even when the liability is derecognised and the amounts are paid. Instead, own credit gains and losses should be reclassified to retained earnings within equity upon derecognition of the relevant liability.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.9 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is 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. The Bank designates certain derivatives as either:

(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(iii) hedges of a net investment in a foreign operation (net investment hedge).

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the statement of profit or loss and other comprehensive income within 'Other operating income'.

Hedge documentation, effectiveness assessment, and discontinuation accounting disclosures are provided in Note 3.10.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the profit or loss in other operating income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the profit or loss in other operating income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the profit or loss.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other operating income in the profit or loss.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the profit or loss. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Reclassifications

The Bank does not reclassify its financial assets subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2021 and 2020.

3.4 Derecognition of the financial assets and liabilities

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:

- the rights to receive cash flows from the asset have expired; or
- 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; and
- Either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank 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 or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or 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 a new liability, and the difference in the respective carrying amounts is recognised in profit or loss for the year.

3.5 Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

— fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset;
and
— other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Modifications of financial assets and financial liabilities (conituned)

Financial assets (continued)

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Impairment of financial assets

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

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition which they are measured as 12-month ECL.

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

3.6.1 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 Bank 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:* as the 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; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

3.6.2 Overview of the 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. From 1 January 2019, 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 (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 month ECL).

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

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

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

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

Stage 1

When financing is 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Impairment of financial assets (continued)

3.6.2 Overview of the ECL principles (continued)

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

Stage 3
Financing exposure considered credit-impaired. The Bank records an allowance for the LTECLs.

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

3.6.3 The calculation of ECLs

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

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:
• PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

• EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest/profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest/profit from missed payments.

• LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Impairment of financial assets (continued)

3.6.4 Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision, in other liabilities;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision in other liabilities; and
- 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.

3.6.5 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 assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

3.6.6 Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years for corporate and seven years for retail products.

3.7 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 derecognized 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 asset 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 amortised fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3.9 Write-off

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

3.10 Hedge documentation, effectiveness assessment, and discontinuation

At the inception of the hedge, the Bank formally designates and documents the hedging relationship to which the Bank wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Bank will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio). Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and is therefore only forward-looking.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Hedge documentation, effectiveness assessment, and discontinuation (continued)

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item.

When the hedging instrument or instruments have been sold or terminated, or when a hedging relationship no longer meets the risk management objective or the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

The Bank performs a hedge effectiveness assessment in a similar manner as at the inception of the hedging relationship and subsequently on every reporting period.

A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation any subsequent changes in fair value of the hedging instrument are recognised in profit or loss. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with Banks and other financial institutions, treasury bills and money market placements, deposits and certificates of deposit maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.12 Determination of fair values

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 35.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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 re-assessing 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 re-measured or re-assessed as per the Bank's accounting policies. For this 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Determination of fair values (Continued)

The Bank also compares each the changes in the 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 risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.13 Property and equipment
Property and equipment are recorded at cost or deemed cost.

i) Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

ii) Subsequent costs
Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

iii) Depreciation
Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

Land and capital work in progress are stated at cost and tested for impairment, if any. Depreciation is provided on a straight-line basis over the estimated useful lives of all property and equipment other than freehold land, which is deemed to have an indefinite life, and capital work in progress.

Right-of-use assets are presented together with property and equipment in the statement of financial position (refer note 8). Right of use assets are depreciated on a straight line basis over the lease term.

The rates of depreciation are based upon the following estimated useful lives:

Buildings on freehold land	25 to 40 years
Leasehold improvements	Over the lease terms 3 to 10 years (shorter of lease term or useful life)
Motor vehicles	4 years
Furniture	3 to 10 years
Equipment	5 to 20 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each statement of financial position date.

3.14 Collateral pending sale
The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the profit or loss for the year.

3.15 Deposits
All money market and customer deposits are carried at amortised cost using EIR.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Other borrowed funds

Other borrowings including subordinate private placements are recognised initially at fair value on transaction date. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit or loss over the period of the borrowings using EIR.

3.17 Taxation – current and deferred

Taxation is provided for based on the relevant tax laws of the respective countries, in which the Bank operates.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss for the year except to the extent that it relates to items recognised directly to other comprehensive income, in which case it is recognised in equity.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

i) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
ii) temporary differences related to investments in subsidiaries to the extent that the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Bank has not rebutted this presumption.

3.18 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Provisions

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

3.20 Perpetual Bond

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Bank's perpetual bonds are not redeemable by holders and bear an entitlement to distribution that is non-cumulative and it is governed by the terms and conditions of the Instruments..

3.21 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

3.22 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

— the gross carrying amount of the financial asset; or
— the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated creditimpaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit 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.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not creditimpaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Revenue recognition (Continued)

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.
For information on when financial assets are credit-impaired,

Presentation
Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:
— interest on financial assets and financial liabilities measured at amortised cost;
— interest on debt instruments measured at FVOCI;
— the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
— the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk; and

Other interest income presented in the statement of profit or loss and OCI includes interest income on lease receivables. Interest expense presented in the statement of profit or loss and OCI includes:
— financial liabilities measured at amortised cost;
— the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
— interest expense on lease liabilities.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income. Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income and from other financial instruments at FVTPL. Cash flows related to capitalised interest are presented in the statement of cash flows consistently with interest cash flows that are not capitalised.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Bank to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Bank based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control over a product or service to a customer. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

For the accounting policy for fees and commissions in the scope of IFRS 9 and for the accounting policy for onerous contracts

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Revenue recognition (Continued)

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies under IFRS 15
Retail and corporate Banking service	The Bank provides Banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate Banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Investment Banking service	The Bank's investment Banking segment provides various finance-related services, including loan administration and agency services, administration of a loan syndication, execution of client transactions with exchanges and securities underwriting. Fees for ongoing services are charged annually at the end of the calendar year to the customer's account. However, if a customer terminates the contract before 31 December, then on termination it is charged the fee for the services performed to date. Transaction-based fees for administration of a loan syndication, execution of transactions, and securities underwriting are charged when the transaction takes place.	Revenue from administrative agency services is recognised over time as the services are provided. The amounts to be collected from customers on 31 December are recognised as trade receivables. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Asset management service	The Bank provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis. In addition, the Bank charges a non-refundable up-front fee when opening an account.	Revenue from asset management services is recognised over time as the services are provided. Non-refundable up-front fees give rise to material rights for future services and are recognised as revenue over the period for which a customer is expected to continue receiving asset management services

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, sale of insurance products are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income
Dividend income is recognised when the Bank's right to receive the payment is established.

Net trading income
Net trading income comprises gains less losses related to trading assets and liabilities, and includes all fair value changes.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Repurchase and resale agreements

Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counter party liability for amounts received under these agreements is included in due to Banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in deposits with Banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

3.24 Leases

At inception of a 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 a period of time in exchange for consideration.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office property the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office property.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of 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.

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 as the discount rate.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Leases (continued)

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

i) Fixed payments, including in-substance fixed payments;
ii) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
iii) amounts expected to be payable under a residual value guarantee; and
iv) the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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 arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

3.25 Staff terminal benefits

The terminal benefits for employees in Oman are provided in accordance with the Sultanate of Oman's labour law. The end of service benefits for employees in UAE are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE labour laws. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law.

3.26 Segment reporting

The Bank's segmental reporting is based on the following operating segments: retail Banking, wholesale Banking, commercial Banking, head office and islamic. Segment results are reported to the Chief Executive Officer of the Bank, (being the chief operating decision maker) and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.27 Dividend on ordinary shares

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

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

3.28 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 Impairment of non-financial assets

The carrying amount of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication whether there is any indication of impairment. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

3.30 Earnings per share

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

3.31 Foreign currency translation

(i) Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.

(ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income.

3.32 Acceptances

Acceptances are disclosed on 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2021

4 CASH AND BALANCES WITH CENTRAL BANKS

2020 *USD'000*	***2021*** ***USD'000***		***2021*** ***RO'000***	*2020* *RO'000*
101,094	**106,169**	Cash	**40,875**	38,921
397,495	**692,194**	Other balances with Central Banks	**266,495**	153,036
498,589	**798,363**	**Cash and cash equivalents**	**307,370**	191,957
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
499,888	**799,662**	**Cash and balances with Central Banks**	**307,870**	192,457

(i) At 31 December 2021, cash and balances with Central Bank of Oman included balances amounting to RO 500,000 (31 December 2020: RO 500,000, 31 December 2019: RO 500,000) as capital deposit. This deposit cannot be withdrawn without the Central Bank of Oman approval.

(ii) Minimum cash reserve to be maintained with Central Bank of Oman as of 31 December 2021 is 3% (2020 : 3%) of total customer's deposits and for Central Bank of UAE, is 1% (2020 : 1%) of time deposits and 7% (2020 : 7%) of all other deposits.

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

5 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

2020 *USD'000*	***2021*** ***USD'000***		***2021*** ***RO'000***	*2020* *RO'000*
38,501	**28,751**	Loans and advances to Banks	**11,069**	14,823
71,792	**35,499**	Placement with Banks	**13,667**	27,640
135,949	**233,856**	Demand balances	**90,035**	52,340
246,242	**298,106**	**Due from Banks and other money market placement**	**114,771**	94,803
(226)	**(223)**	Less: allowance for credit losses	**(86)**	(87)
246,016	**297,883**	**Net due from Banks and other money market placement**	**114,685**	94,716

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

2020 *USD'000*	***2021*** ***USD'000***		***2021*** ***RO'000***	*2020* *RO'000*
1,223	**226**	Balance at beginning of year	**87**	471
(997)	**(3)**	Released during the year	**(1)**	(384)
226	**223**	**Balance at end of year**	**86**	87

The credit quality and the maximum exposure to credit risk based on Bank's internal credit rating system and the year-end staging classification is disclosed in note 32.1 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2021

6 LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS (NET)

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
243,618	**182,242**	Overdrafts	**70,163**	93,793
3,628,262	**3,661,777**	Personal loans	**1,409,784**	1,396,881
194,455	**209,213**	Loans against trust receipts	**80,547**	74,865
25,668	**43,055**	Bills discounted	**16,576**	9,882
3,813,851	**4,319,009**	Other loans	**1,662,819**	1,468,333
7,905,854	**8,415,296**	**Gross loans, advances and financing activities for customers**	**3,239,889**	3,043,754
(404,914)	**(392,839)**	Allowance for credit losses	**(151,243)**	(155,892)
7,500,940	**8,022,457**	**Net loans and advances**	**3,088,646**	2,887,862

Gross loans, advances and financing activities for customers include RO 147 million (USD 383 million) due from related parties at 31 December 2021 (31 December 2020 – RO 121 million – USD 315 million) (refer note 29).

The movement in the provision for impairment of loans, advances and Islamic financing assets for customers is set out below:

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
307,244	**404,914**	Balance at beginning of year	**155,892**	118,289
120,527	**94,366**	Provided during the year	**36,331**	46,403
(8,644)	**(7,252)**	Recovered/ released during the year	**(2,792)**	(3,328)
(14,213)	**(99,189)**	Written off during the year	**(38,188)**	(5,472)
404,914	**392,839**	**Balance at end of year**	**151,243**	155,892

Provided during the period includes contractual interest reserved for RO 7.14 million (31 December 2020 – RO 6.67 million).

Recovered/released during the period includes recovery of reserved interest for RO 1.24 million (31 December 2020 – RO 0.92 million).

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

As of 31 December 2021, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 171 million (31 December 2020 – RO 169 million).

The credit quality and the maximum exposure to credit risk based on Bank's internal credit rating system and the year-end staging classification is disclosed in note 32.1 to the financial statements.

6 LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS (NET) (CONTINUED)

The table below analyses the concentration of gross loans and advances by various sectors.

Total 2020 USD'000	***Total 2021 USD'000***		***Total 2021 RO'000***	*Total 2020 RO'000*
3,628,262	**3,661,777**	Personal	**1,409,784**	1,396,881
618,852	**820,458**	Service	**315,876**	238,258
576,642	**601,235**	Financial institutions	**231,475**	222,007
501,158	**521,506**	Manufacturing	**200,780**	192,946
481,657	**481,423**	Electricity, gas and water	**185,348**	185,438
479,143	**462,535**	Transport and communication	**178,076**	184,470
373,200	**459,745**	Wholesale and retail trade	**177,002**	143,682
388,816	**399,888**	Construction	**153,957**	149,694
250,545	**321,255**	Mining and quarrying	**123,683**	96,460
199,634	**237,766**	Import trade	**91,540**	76,859
252,366	**225,890**	Others	**86,968**	97,161
143,470	**204,870**	Government	**78,875**	55,236
12,109	**16,948**	Agriculture	**6,525**	4,662
7,905,854	**8,415,296**	**Total Gross Loans**	**3,239,889**	3,043,754

The geographic distribution of loans and advances to customers, based on the location of the borrower is as follows:

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
7,659,688	**8,129,067**	Sultanate of Oman	**3,129,691**	2,948,980
238,429	**280,039**	United Arab Emirates	**107,815**	91,795
7,737	**6,190**	Others	**2,383**	2,979
7,905,854	**8,415,296**	**Total**	**3,239,889**	3,043,754

NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2021

7 FINANCIAL INVESTMENTS

2020 USD'000	2021 USD'000		2021 RO'000	2020 RO'000
		Investments measured at Fair value through profit and loss (FVTPL)		
1,231	**1,553**	Quoted investments-Oman	**598**	474
1,035	**974**	Quoted investments-foreign	**375**	398
6,968	**6,725**	Unquoted Investments in funds	**2,589**	2,683
9,234	**9,252**	**Total FVTPL investments**	**3,562**	3,555
		Investments measured at Fair value through other comprehensive income (FVOCI)		
		FVOCI – Equity investments		
37,729	**38,205**	Quoted investments- Oman	**14,709**	14,526
47,319	**55,089**	Quoted investments- foreign	**21,209**	18,218
842	**57**	Unquoted investments	**22**	324
85,890	**93,351**	**Total FVOCI – equity instruments**	**35,940**	33,068
		FVOCI - Debt instruments		
10,174	**10,488**	Government development bonds- Oman	**4,038**	3,917
10,174	**10,488**	**Total FVOCI – debt instruments**	**4,038**	3,917
96,064	**103,839**	**Total FVOCI**	**39,978**	36,985
		Investments measured at amortised cost		
626,175	**671,945**	Government development bonds- Oman	**258,699**	241,077
42,642	**42,696**	Government sukuk- Oman	**16,438**	16,417
41,759	**57,076**	Quoted investments- Oman	**21,974**	16,077
12,314	**-**	Government development bonds-foreign	**-**	4,741
51,948	**277,922**	Treasury Bills	**107,000**	20,000
9,529	**-**	Certificate of Deposits	**-**	3,669
784,367	**1,049,639**	**Total – amortised cost**	**404,111**	301,981
889,665	**1,162,730**	**Total financial investments**	**447,651**	342,521
(826)	**(1,229)**	**Less: Impairment**	**(473)**	(318)
888,839	**1,161,501**	**Total financial investments**	**447,178**	342,203

Movement in allowances for the credit losses for debt securities at fair value through other comprehensive income and amortised cost:

2020 USD'000	2021 USD'000		2021 RO'000	2020 RO'000
1,317	**826**	Balance at beginning of year	**318**	507
(491)	**403**	Provided/(Released) during the year	**155**	(189)
826	**1,229**	Balance at end of year	**473**	318

7 FINANCIAL INVESTMENTS (CONTINUED)

Details of significant investments

Details of investments exceeding 10% of the carrying value of the Bank's investment portfolio are as follows:

Bank's portfolio %	*Carrying value USD'000*		*Bank's portfolio %*	*Carrying value RO'000*
		2021		
62%	**725,129**	Government Development Bonds-Oman	**62%**	**279,175**
24%	**277,922**	Treasury Bills	**24%**	**107,000**
		2020		
82%	678,991	Government Development Bonds-Oman	82%	261,411

In 2021, the Bank received dividends of RO 1.25 million from its FVOCI equities (2020: RO 1.61 million for FVOCI equities), recorded as other operating income.

There have been no significant changes in debt instruments measured at FVOCI gross balances and correspondingly, no significant changes in the ECL over the year.The fair value of the Bank's debt instruments measured at FVOCI by credit risk, based on the Bank's internal credit rating system and year-end stage classification are disclosed in note 32.1 to the financial statements.

The credit rating profile of investment debt securities, based on the lowest rating assigned by the major international rating agencies, was as follows:

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
24,289	**40,647**	Rated	**15,649**	9,351
16,429	**16,429**	Unrated	**6,325**	6,325
753,823	**1,003,051**	Sovereign	**386,175**	290,222
794,541	**1,060,127**		**408,149**	305,898

The movement in investment securities are summarised below:

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
778,675	**888,839**	Balance at beginning of year	**342,203**	299,790
143,268	**329,481**	Additions	**126,850**	55,158
(24,836)	**(69,590)**	Disposals and redemption	**(26,792)**	(9,562)
(9,011)	**9,470**	Gain/(Loss) from changes in Fair Value	**3,646**	(3,469)
491	**(403)**	Reversal of impairment Losses	**(155)**	189
(1,613)	**(294)**	Loss on sale – FVOCI	**(113)**	(621)
1,621	**1,684**	Amortization of discount/premium	**648**	624
244	**2,314**	Profit on investments at FVTPL	**891**	94
888,839	**1,161,501**	Balance at end of year	**447,178**	342,203

During the year, the Bank has disposed of one of the investment in amortised cost debt securities, considering the regulatory guidelines.

8 PROPERTY AND EQUIPMENT

	Freehold land and buildings and leasehold improvements RO'000	*Motor vehicles, furniture and equipment RO'000*	*Capital work in progress RO'000*	*Right of use assets RO'000*	*Total RO'000*
Carrying amount:					
Balance as at 1 January 2021, net of accumulated depreciation	**45,852**	**12,330**	**1,240**	**3,146**	**62,568**
Additions	**22**	**915**	**1,336**	**1,341**	**3,614**
Disposals	**(122)**	**(7)**	**(17)**	**-**	**(146)**
Transfers	**96**	**1,354**	**(1,450)**	**-**	**-**
Depreciation	**(1,295)**	**(3,020)**	**-**	**(1,829)**	**(6,144)**
Balance at 31 December 2021, net of accumulated depreciation	**44,553**	**11,572**	**1,109**	**2,658**	**59,892**
At cost	**60,695**	**47,081**	**1,109**	**5,488**	**114,373**
Accumulated depreciation	**(16,142)**	**(35,509)**	**-**	**(2,830)**	**(54,481)**
Net carrying value at 31 December 2021	**44,553**	**11,572**	**1,109**	**2,658**	**59,892**
Net carrying value at 31 December 2021 – USD'000	**115,722**	**30,057**	**2,881**	**6,903**	**155,564**
Carrying amount:					
Balance as at 1 January 2020, net of accumulated depreciation	46,915	13,709	1,017	3,406	65,047
Additions	16	1,169	1,142	1,704	4,031
Disposals	-	(40)	-	-	(40)
Transfers	235	684	(919)	-	-
Translation difference	3	-	-	-	3
Depreciation	(1,317)	(3,192)	-	(1,964)	(6,473)
Balance at 31 December 2020, net of accumulated depreciation	45,852	12,330	1,240	3,146	62,568
At cost	61,024	45,192	1,240	6,985	114,441
Accumulated depreciation	(15,172)	(32,862)	-	(3,839)	(51,873)
Net carrying value at 31 December 2020	45,852	12,330	1,240	3,146	62,568
Net carrying value at 31 December 2020 – USD'000	119,096	32,026	3,221	8,171	162,514

Freehold land and buildings and leasehold improvements include land at a cost of RO 8.56 million – USD 22.22 million (2020 – RO 8.56 million – USD 22.22 million) which is not depreciated.

The Bank leases a number of branch and office premises. The leases run between 1 year to 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated periodicly to reflect market rentals.

The Bank also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Bank has not recognised right-of-use assets and lease liabilities for these leases.

9 OTHER ASSETS

2020 USD'000	**2021 USD'000**		**2021 RO'000**	2020 RO'000
67,419	**63,917**	Interest receivable and others	**24,608**	25,956
11,753	**8,029**	Positive fair value of derivatives (note 36)	**3,091**	4,525
58,088	**91,161**	Customers' indebtedness for acceptances	**35,097**	22,364
137,260	**163,107**		**62,796**	52,845

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2020 USD'000	**2021 USD'000**		**2021 RO'000**	2020 RO'000
733,031	**761,203**	Borrowings	**293,063**	282,217
16,899	**12,119**	Other balances	**4,666**	6,506
749,930	**773,322**		**297,729**	288,723

11 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

2020 USD'000	**2021 USD'000**		**2021 RO'000**	2020 RO'000
2,239,104	**3,379,746**	Current accounts	**1,301,202**	862,055
1,653,083	**1,663,683**	Savings accounts	**640,518**	636,437
2,671,914	**2,535,096**	Term deposits	**976,012**	1,028,687
6,564,101	**7,578,525**		**2,917,732**	2,527,179

12 EURO MEDIUM TERM NOTES

The Bank has established Euro medium term notes programme for USD 1,500 million. These Bonds are listed in the Irish Stock Exchange and governed by English law.As at reporting period end, the Bank has an issuance for RO RO 192.5 million (USD 500 million). (31 December 2020 – RO 192.5 million – USD 500 million), maturing in Sep 2023.

13 OTHER LIABILITIES

2020 USD'000	2021 USD'000		2021 RO'000	2020 RO'000
131,857	**157,146**	Interest payable and others	**60,502**	50,765
5,557	**4,548**	Lease liabilities	**1,751**	2,139
6,324	**4,997**	Staff entitlements	**1,924**	2,435
58,088	**91,161**	Liabilities under acceptances	**35,097**	22,364
7,403	**6,795**	Allowances for credit losses for loan Commitments and Financial Guarantees	**2,616**	2,850
10,075	**5,390**	Negative fair value of derivatives (note 36)	**2,075**	3,879
41	**1,328**	Deferred tax liability (note 14)	**511**	16
219,345	**271,365**		**104,476**	84,448

Staff entitlements are as follows:

2020 USD'000	2021 USD'000		2021 RO'000	2020 RO'000
5,475	**4,171**	End of service benefits	**1,606**	2,108
849	**826**	Other liabilities	**318**	327
6,324	**4,997**		**1,924**	2,435

Movement in the lease liabilities:

2020 USD'000	2021 USD'000		2021 RO'000	2020 RO'000
7,255	**5,557**	Balance at beginning of year	**2,139**	2,793
3,091	**6,352**	Additions during the year	**2,446**	1,190
294	**213**	Finance charges on lease	**82**	113
(5,083)	**(7,574)**	Lease payments	**(2,916)**	(1,957)
5,557	**4,548**	Balance at year end	**1,751**	2,139

Maturity analysis of lease liabilities:

2020 USD'000	2021 USD'000		2021 RO'000	2020 RO'000
3,554	**3,364**	1 to 5 years	**1,295**	1,368
2,003	**1,184**	Over 5 years	**456**	771
5,557	**4,548**	Balance at year end	**1,751**	2,139

Movement in the allowance for credit losses - non-funded loans, advances and financing activities for customers:

2020 USD'000	2021 USD'000		2021 RO'000	2020 RO'000
15,652	**7,403**	Balance at beginning of year	**2,850**	6,026
(8,249)	**(608)**	Released during the year	**(234)**	(3,176)
7,403	**6,795**	Balance at year end	**2,616**	2,850

14 TAXATION

2020 USD'000	2021 USD'000		2021 RO'000	2020 RO'000
		Tax expense		
9,609	**14,425**	Current year	**5,554**	3,700
(103)	**97**	Deferred tax adjustment	**37**	(40)
9,506	**14,522**		**5,591**	3,660

The Bank is liable to income tax at the following rates:

- Sultanate of Oman: 15% of consolidated taxable income (2020: 15% of consolidated taxable income)
- United Arab Emirates: 20% of taxable income
- Egypt: 22.5% of taxable income

Set out below is reconciliation between income tax calculated on accounting profits with income tax expense for the year:

2020 USD'000	2021 USD'000		2021 RO'000	2020 RO'000
56,645	**93,165**	Accounting profit	**35,868**	21,808
8,496	**13,975**	Tax at applicable rate	**5,380**	3,271
2,566	**65**	Non-deductible expenses	**25**	988
(3,912)	**(979)**	Tax exempt revenues	**(377)**	(1,506)
2,459	**1,364**	Others	**526**	947
9,609	**14,425**		**5,554**	3,700

The Bank's liabilities for taxation in the Sultanate of Oman have been assessed and agreed up to the year ended 31 December 2013.

Management believes that additional taxes, if any, in respect of open tax assessments would not be significant to the Bank's financial position as at 31 December 2021.

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The Bank's liability in respect of its branches in UAE has been agreed with the tax authorities up to 31 December 2020.

Tax liability

2020 USD'000	2021 USD'000		2021 RO'000	2020 RO'000
9,609	**14,425**	Through comprehensive income	**5,554**	3,700
15,518	**19,804**	Through prior years	**7,624**	5,974
(275)	**(8)**	Through retained earnings	**(3)**	(106)
24,852	**34,221**		**13,175**	9,568

Recognised deferred tax assets/(liabilities)

Deferred tax liabilities are attributable to the following:

2020 USD'000	2021 USD'000		2021 RO'000	2020 RO'000
130	**31**	Deductible temporary differences relating to provisions	**11**	50
(171)	**(1,359)**	FVOCI investments	**(522)**	(66)
(41)	**(1,328)**		**(511)**	(16)

14 TAXATION (CONTINUED)

Movement of deferred tax liability

2020 *USD'000*	***2021*** ***USD'000***		***2021*** ***RO'000***	*2020* *RO'000*
(863)	**(41)**	Balance at the beginning of the year	**(16)**	(333)
104	**(94)**	Reversed during the year	**(36)**	40
718	**(1,193)**	Tax effect of equity investments at FVOCI – net change in fairvalue	**(459)**	277
(41)	**(1,328)**		**(511)**	(16)

15 SHARE CAPITAL

The Authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (2020 – 2,000,000,000 of RO 0.100 each). At 31 December 2021, 1,625,946,355 shares of RO 0.100 each (2020 – 1,625,946,355 shares of RO 0.100 each) have been issued and fully paid.

The following shareholders held 10% or more of the Bank's capital:

	2021		*2020*	
	No.of shares ***'000***	***% Holding***	*No.of shares* *'000*	*% Holding*
The Commercial Bank of Qatar	**567,453**	**34.90%**	567,453	34.90%
Suhail Bahwan Group (Holdings) L.L.C	**239,734**	**14.74%**	239,734	14.74%
Civil Service Employee Pension Fund	**184,652**	**11.36%**	182,789	11.24%

The percentage shareholding is calculated based on the total shares of the Bank outstanding at the reporting date.

16 SHARE PREMIUM

The share premium of RO 34.46 million (USD 89.52 million) represents the premium collected on issue of shares by the bank through a private placement in prior years.

17 LEGAL RESERVE

The legal reserve, which is not available for distribution, is accumulated in accordance with the requirements of the Commercial Companies Law of Oman and the Union Law No. 10 of UAE. The annual appropriations must not be less than 10% of the profit for the year until such time that the respective reserve account balance amounts to at least one third of the share capital in Oman and half of the branch capital in UAE. At 31 December 2021, the legal reserve of Oman has reached one third of the issued capital.

18 OTHER RESERVES

	FVOCI	Impairment reserve	Total
	RO '000	**RO '000**	**RO '000**
At 1 January 2021	**(9,016)**	**10,580**	**1,564**
Net movement on FVOCI	**4,228**	**-**	**4,228**
Tax effect of net results on FVOCI	**(458)**	**-**	**(458)**
At 31 December 2021	**(5,246)**	**10,580**	**5,334**
At 31 December 2021 (USD'000s)	**(13,626)**	**27,481**	**13,855**

(i) The Impairment reserve is made 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 IFRS9, the difference, net of the impact of taxation, is transferred to an impairment reserve as an appropriation from the retained earnings.

	FVOCI	Impairment reserve	Total
	RO '000	**RO '000**	**RO '000**
At 1 January 2020	(5,825)	5,061	(764)
Net movement on FVOCI	(2,988)	-	(2,988)
Tax effect of net results on FVOCI	277	-	277
Transfer to retained earnings – realised FVOCI	(480)	-	(480)
Transfer from retained earnings	-	5,519	5,519
At 31 December 2020	(9,016)	10,580	1,564
At 31 December 2020 (USD'000s)	(23,419)	27,481	4,062

(i) The Impairment reserve is made 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 IFRS9, the difference, net of the impact of taxation, is transferred to an impairment reserve as an appropriation from the retained earnings.

19 TIER 1 PERPETUAL BOND

The bank has issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities") with details mentioned in the table below. 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 – Classification. The Tier 1 Securities do not have a fixed or final maturity date. They are redeemable by the bank at its sole discretion on any interest payment date on or after the first call date subject to the prior consent of the Central Bank of Oman.

Issuance Month/Year	Issued Amount	Coupon Rate
Apr 2021	USD 300 million (OMR 115.5 million)	Fixed interest rate of 8% with a reset after 5 years

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

The bank has exercised its option to call back the following notes in May 2021 and as a result these have been repaid in full.

Issuance Month/Year	Issued Amount	Coupon Rate
Nov 2015	USD 300 million (OMR 115.5 million)	Fixed interest rate of 6.625% with a reset after 5 years

20 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.0037 per share totalling RO 6.0 million (USD 0.01 per share totalling USD 15.6 million) for the year ended 31 December 2021, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2022.

21 CONTINGENT LIABILITIES

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

21.1 Contingent liabilities and commitments

As of the reporting date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
732,382	**734,732**	Guarantees	**282,872**	281,967
101,143	**190,587**	Documentary letters of credit	**73,376**	38,940
833,525	**925,319**		**356,248**	320,907

The table below analyses the concentration of contingent liabilities by economic sector

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
403,569	**307,455**	Construction	**118,370**	155,374
85,486	**162,982**	Wholesale and Retail Trade	**62,748**	32,912
138,948	**138,977**	Financial Institutions	**53,506**	53,495
50,818	**114,865**	Manufacturing	**44,223**	19,565
33,151	**81,135**	Service	**31,237**	12,763
48,642	**53,109**	Transport and Communication	**20,447**	18,727
48,464	**35,199**	Others	**13,552**	18,659
6,382	**24,695**	Electricity, Gas & Water	**9,508**	2,457
17,104	**5,174**	Mining & Quarrying	**1,992**	6,585
221	**1,099**	Agriculture	**423**	85
740	**629**	Personal	**242**	285
833,525	**925,319**		**356,248**	320,907

Guarantees include RO 14.13 million – USD 37 million (Dec 2020: RO 6.95 million – USD 18 million) relating to non-performing loans.

21 CONTINGENT LIABILITIES (CONTINUED)

21.2 Commitments

2020	***2021***		***2021***	*2020*
USD'000	***USD'000***		***RO'000***	*RO'000*
458,761	**309,779**	Undrawn commitment	**119,265**	176,623
4,680	**3,035**	Capital expenditure	**1,169**	1,802

21.3 Branches

The Bank has deposited in the countries concerned, the following amounts of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the respective Central Banks.

2020	***2021***		***2021***	*2020*
USD'000	***USD'000***		***RO'000***	*RO'000*
106,282	**106,282**	UAE branch	**40,918**	40,918
50,000	**50,000**	Egypt branches	**19,250**	19,250
156,282	**156,282**		**60,168**	60,168

21.4 Legal claims

By nature of the Banking sector, litigation whether by or against the Bank is expected. In order to properly manage such litigation, the Bank has in place effective mechanism and controls. The Bank does not have any major/ material litigation pending in a court of law in Oman or outside either instituted by or against the Bank, other than normal cases filed by or against customers in the normal course of business. However, there are certain unresolved legal claims filed against the Bank which are not expected to have any significant implication on the Bank's financial statements.

21.5 Fiduciary assets

The Bank acts as fund manager and investment advisor to investment funds. For all funds managed by the Bank, the investors (whose number ranges from 30 to 100) are able to vote by simple majority to remove the Bank as fund manager without cause, and the Bank's aggregate economic interest is in each case less than 5% per annum. As a result, the Bank has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

The Bank's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals. The aggregate amounts of funds managed, which are not included in the Bank's statement of financial position, are as follows:

2020	***2021***		***2021***	*2020*
USD'000	***USD'000***		***RO'000***	*RO'000*
228,639	**273,777**	**Fund under management**	**105,404**	88,026

Involvement with unconsolidated structured entities

The Bank's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals.

The following table describes the types of structured entities that the Bank does not consolidate but in which it holds an interest.

2020	***2021***		***2021***	*2020*
USD'000	***USD'000***		***RO'000***	*RO'000*
24,610	**30,878**	**Fund under management**	**11,888**	9,475

21 CONTINGENT LIABILITIES (CONTINUED)

21.5 Fiduciary assets (continued)

The following table sets out an analysis of the carrying amounts of interests held by the Bank in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

2020 USD'000	**2021 USD'000**		**2021 RO'000**	2020 RO'000
1,717	**1,564**	**Carrying amount of funds invested**	**602**	661

The Bank considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The following table sets out information in respect of structured entities that the Bank sponsors, but in which the Bank does not have an interest.

2020 USD'000	**2021 USD'000**		**2021 RO'000**	2020 RO'000
24,610	**30,878**	**Fund under management**	**11,888**	9,475
249	**306**	**Commission and fees**	**118**	96

22 INTEREST INCOME

2020 USD'000	**2021 USD'000**		**2021 RO'000**	2020 RO'000
377,954	**380,876**	Interest from customers	**146,637**	145,512
4,831	**1,478**	Interest from Banks	**569**	1,860
41,088	**47,745**	Interest from investments	**18,382**	15,819
423,873	**430,099**		**165,588**	163,191

Interest bearing assets have an overall effective annual rate of of 4.98% per annum for the year ended 31 December 2021 (31 December 2020 – 5.20% per annum).

23 INTEREST EXPENSE

2020 USD'000	**2021 USD'000**		**2021 RO'000**	2020 RO'000
143,000	**152,678**	Interest to customers	**58,781**	55,055
25,774	**21,914**	Interest to banks	**8,437**	9,923
29,400	**29,460**	Interest on EMTN	**11,342**	11,319
198,174	**204,052**		**78,560**	76,297

For the year ended 31 December 2021, the average overall effective annual cost of funds was 2.43% per annum (31 December 2020 – 2.62% per annum).

NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2021

24 FEE AND COMMISSION INCOME (NET)

The commission and fee income shown in the statement of comprehensive income is net of commission and fee paid of RO 18.86 million (USD 48.99 million) for the year ended 31 December 2021 (31 December 2020 – RO 12.94 million (USD 33.61 million)).

25 OTHER OPERATING INCOME

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
244	**2314**	Profit on investments at FVTPL	**891**	94
16,992	**16,104**	Net gains from foreign exchange dealings	**6,200**	6,542
4,187	**3,244**	Dividend income	**1,249**	1,612
12,653	**11,865**	Miscellaneous income	**4,568**	4,871
34,076	**33,527**		**12,908**	13,119

26 STAFF COSTS

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
77,156	**72,410**	Employees' salaries	**27,878**	29,705
6,268	**6,584**	Contribution to social insurance schemes	**2,535**	2,413
16,677	**22,006**	Other staff costs	**8,472**	6,421
100,101	**101,000**		**38,885**	38,539

The Bank employed 1,470 employees as of 31 December 2021 (31 December 2020 - 1,573).

27 OTHER OPERATING EXPENSES

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
10,814	**10,696**	Establishment costs	**4,118**	4,163
37,379	**35,953**	Operating and administration costs	**13,842**	14,391
675	**1,322**	Directors' remuneration and sitting fees	**509**	260
48,868	**47,971**		**18,469**	18,814

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2021:

Impairment charge and provision held as of 31 December 2021

As per CBO Norms	As per IFRS 9	Difference	Particular	As per CBO Norms	As per IFRS 9	Difference
USD'000	*USD'000*	*USD'000*		*RO'000*	*RO'000*	*RO'000*
-	71,592	NA	Impairment Loss charged to profit and loss	-	27,563	NA
452,911	401,086	(51,825)	Provisions required	174,371	154,418	(19,953)
-	5.29	5.29	Gross non-performing loan ratio (percentage)	-	5.29	5.29
-	4.82	4.82	Net non-performing loan ratio (percentage)	-	4.82	4.82

Mapping of IFRS 9 and CBO norms

Amounts in RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	2,482,125	34,076	9,043	25,033	2,473,082	-
	Stage 2	493,566	5,350	10,652	(5,302)	482,914	-
	Stage 3	-	-	-	-	-	-
Subtotal		2,975,691	39,426	19,695	19,731	2,955,996	-
Special Mention	Stage 1				-	-	
	Stage 2	92,797	944	22,111	(21,167)	70,686	-
	Stage 3	-	-	-	-	-	-
Subtotal		92,797	944	22,111	(21,167)	70,686	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	19,495	4,741	6,955	(2,145)	12,540	69
Subtotal		19,495	4,741	6,955	(2,145)	12,540	69
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	17,720	12,549	13,169	(182)	4,551	438
Subtotal		17,720	12,549	13,169	(182)	4,551	438
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	134,185	100,857	89,313	26,891	44,872	15,347
Subtotal		134,185	100,857	89,313	26,891	44,872	15,347
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	876,571	-	1,294	(1,294)	875,277	-
	Stage 2	213,949	-	1,881	(1,881)	212,068	-
	Stage 3	-	-	-	-	-	-
Subtotal		1,090,520	-	3,175	(3,175)	1,087,345	-
Total	Stage 1	3,358,696	34,076	10,337	23,739	3,348,359	-
	Stage 2	800,312	6,294	34,644	(28,350)	765,668	-
	Stage 3	171,400	118,147	109,437	24,564	61,963	15,854
	Total	4,330,408	158,517	154,418	19,953	4,175,990	15,854

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2021 (continued):

Mapping of IFRS 9 and CBO norms

Amounts in USD'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	**6,447,078**	**88,509**	**23,487**	**65,022**	**6,423,591**	-
	Stage 2	**1,281,990**	**13,896**	**27,668**	**(13,772)**	**1,254,322**	-
	Stage 3	-	-	-	-	-	-
Subtotal		**7,729,068**	**102,405**	**51,155**	**51,250**	**7,677,913**	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	**241,031**	**2,452**	**57,431**	**(54,979)**	**183,600**	-
	Stage 3	-	-	-	-	-	-
Subtotal		**241,031**	**2,452**	**57,431**	**(54,979)**	**183,600**	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**50,636**	**12,314**	**18,065**	**(5,572)**	**32,571**	**179**
Subtotal		**50,636**	**12,314**	**18,065**	**(5,572)**	**32,571**	**179**
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**46,026**	**32,595**	**34,205**	**(472)**	**11,821**	**1,138**
Subtotal		**46,026**	**32,595**	**34,205**	**(472)**	**11,821**	**1,138**
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**348,532**	**261,966**	**231,983**	**69,845**	**116,549**	**39,862**
Subtotal		**348,532**	**261,966**	**231,983**	**69,845**	**116,549**	**39,862**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	**2,276,808**	-	**3,361**	**(3,361)**	**2,273,447**	-
	Stage 2	**555,712**	-	**4,886**	**(4,886)**	**550,826**	-
	Stage 3	-	-	-	-	-	-
Subtotal		**2,832,520**	-	**8,247**	**(8,247)**	**2,824,273**	-
Total	Stage 1	**8,723,886**	**88,509**	**26,848**	**61,661**	**8,697,038**	-
	Stage 2	**2,078,733**	**16,348**	**89,985**	**(73,637)**	**1,988,748**	-
	Stage 3	**445,194**	**306,875**	**284,253**	**63,801**	**160,941**	**41,179**
	Total	**11,247,813**	**411,732**	**401,086**	**51,825**	**10,846,727**	**41,179**

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2020:

Impairment charge and provision held as of 31 December 2020

As per CBO Norms	As per IFRS 9	Difference	Particular	As per CBO Norms	As per IFRS 9	Difference
USD'000	*USD'000*	*USD'000*		*RO'000*	*RO'000*	*RO'000*
-	84,842	NA	Impairment Loss charged to profit and loss	-	32,664	NA
445,700	413,369	(32,331)	Provisions required	171,594	159,147	(12,447)
-	5.55	5.55	Gross non-performing loan ratio (percentage)	-	5.55	5.55
-	5.02	5.02	Net non-performing loan ratio (percentage)	-	5.02	5.02

Mapping of IFRS 9 and CBO norms

Amounts in RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	2,253,382	31,337	11,840	19,497	2,241,542	-
	Stage 2	508,332	5,428	10,522	(5,094)	497,810	-
	Stage 3	-	-	-	-	-	-
Subtotal		2,761,714	36,765	22,362	14,403	2,739,352	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	113,064	1,146	21,104	(19,958)	91,960	-
	Stage 3	-	-	-	-	-	-
Subtotal		113,064	1,146	21,104	(19,958)	91,960	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	6,285	1,558	2,863	(1,254)	3,422	51
Subtotal		6,285	1,558	2,863	(1,254)	3,422	51
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	28,325	12,261	16,837	(3,718)	11,488	858
Subtotal		28,325	12,261	16,837	(3,718)	11,488	858
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	134,366	102,849	92,726	26,229	41,640	16,106
Subtotal		134,366	102,849	92,726	26,229	41,640	16,106
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	572,401	-	1,315	(1,315)	571,086	-
	Stage 2	127,063	-	1,940	(1,940)	125,123	-
	Stage 3	-	-	-	-	-	-
Subtotal		699,464	-	3,255	(3,255)	696,209	-
Total	Stage 1	2,825,783	31,337	13,155	18,182	2,812,628	-
	Stage 2	748,459	6,574	33,566	(26,992)	714,893	-
	Stage 3	168,976	116,668	112,426	21,257	56,550	17,015
	Total	3,743,218	154,579	159,147	12,447	3,584,071	17,015

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2020 (continued):

Impairment charge and provision held as of 31 December 2020

Mapping of IFRS 9 and CBO norms

Amounts in USD'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	5,852,940	81,395	30,752	50,643	5,822,188	-
	Stage 2	1,320,343	14,099	27,330	(13,231)	1,293,013	-
	Stage 3	-	-	-	-	-	-
Subtotal		7,173,283	95,494	58,082	37,412	7,115,201	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	293,673	2,977	54,816	(51,839)	238,857	-
	Stage 3	-	-	-	-	-	-
Subtotal		293,673	2,977	54,816	(51,839)	238,857	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	16,325	4,047	7,436	(3,257)	8,889	132
Subtotal		16,325	4,047	7,436	(3,257)	8,889	132
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	73,571	31,847	43,732	(9,656)	29,839	2,229
Subtotal		73,571	31,847	43,732	(9,656)	29,839	2,229
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	349,003	267,140	240,848	68,126	108,155	41,834
Subtotal		349,003	267,140	240,848	68,126	108,155	41,834
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,486,756	-	3,416	(3,416)	1,483,340	-
	Stage 2	330,034	-	5,039	(5,039)	324,995	-
	Stage 3	-	-	-	-	-	-
Subtotal		1,816,790	-	8,455	(8,455)	1,808,335	-
Total	Stage 1	7,339,696	81,395	34,168	47,227	7,305,528	-
	Stage 2	1,944,050	17,076	87,185	(70,109)	1,856,865	-
	Stage 3	438,899	303,034	292,016	55,213	146,883	44,195
	Total	9,722,645	401,505	413,369	32,331	9,309,276	44,195

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2021:

Restructured loans

Amounts in RO'000

Asset classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	**131,939**	**15,059**	**7,828**	**7,231**	**124,111**	-
	Stage 3	-	-	-	-	-	-
Subtotal		**131,939**	**15,059**	**7,828**	**7,231**	**124,111**	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**34,815**	**35,683**	**31,571**	**9,648**	**3,244**	**5,536**
Sub total		**34,815**	**35,683**	**31,571**	**9,648**	**3,244**	**5,536**
Total	Stage 1	-	-	-	-	-	-
	Stage 2	**131,939**	**15,059**	**7,828**	**7,231**	**124,111**	-
	Stage 3	**34,815**	**35,683**	**31,571**	**9,648**	**3,244**	**5,536**
	Total	**166,754**	**50,742**	**39,399**	**16,879**	**127,355**	**5,536**

Restructured loans

Amounts in USD'000

Asset classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	**342,699**	**39,114**	**20,332**	**18,782**	**322,367**	-
	Stage 3	-	-	-	-	-	-
Subtotal		**342,699**	**39,114**	**20,332**	**18,782**	**322,367**	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**90,429**	**92,683**	**82,003**	**25,059**	**8,426**	**14,379**
Sub total		**90,429**	**92,683**	**82,003**	**25,059**	**8,426**	**14,379**
Total	Stage 1	-	-	-	-	-	-
	Stage 2	**342,699**	**39,114**	**20,332**	**18,782**	**322,367**	-
	Stage 3	**90,429**	**92,683**	**82,003**	**25,059**	**8,426**	**14,379**
	Total	**433,128**	**131,797**	**102,335**	**43,841**	**330,793**	**14,379**

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2020:

Restructured loans

Amounts in RO'000

Asset classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	46,605	806	4,382	(3,576)	42,223	-
	Stage 3	-	-	-	-	-	-
Subtotal		46,605	806	4,382	(3,576)	42,223	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	37,048	29,484	27,055	5,684	9,993	3,255
Sub total		37,048	29,484	27,055	5,684	9,993	3,255
Total	Stage 1	-	-	-	-	-	-
	Stage 2	46,605	806	4,382	(3,576)	42,223	-
	Stage 3	37,048	29,484	27,055	5,684	9,993	3,255
	Total	83,653	30,290	31,437	2,108	52,216	3,255

Restructured loans

Amounts in USD'000

Asset classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	121,052	2,094	11,382	(9,288)	109,670	-
	Stage 3	-	-	-	-	-	-
Subtotal		121,052	2,094	11,382	(9,288)	109,670	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	96,229	76,582	70,273	14,764	25,956	8,455
Sub total		96,229	76,582	70,273	14,764	25,956	8,455
Total	Stage 1	-	-	-	-	-	-
	Stage 2	121,052	2,094	11,382	(9,288)	109,670	-
	Stage 3	96,229	76,582	70,273	14,764	25,956	8,455
	Total	217,281	78,676	81,655	5,476	135,626	8,455

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.3 Movement in expected credit losses (ECL) as at 31 December 2021

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	RO' 000	*RO'000*	*RO'000*	*RO'000*
Exposure subject to ECL				
- Loans and Advances to Customers	**2,482,126**	**586,363**	**171,400**	**3,239,889**
- Investment Securities	**441,876**	**5,775**	**-**	**447,651**
- Loan Commitments and Financial Guarantees	**261,563**	**213,949**	**-**	**475,512**
- Due from Banks, Central Banks and Other Financial Assets	**114,771**	**-**	**-**	**114,771**
	3,300,336	**806,087**	**171,400**	**4,277,823**
Opening Balance – as at 1 January 2021				
- Loans and Advances to Customers	**11,840**	**31,626**	**112,426**	**155,892**
- Investment Securities (Debt)	**318**	**-**	**-**	**318**
- Loan Commitments and Financial Guarantees	**910**	**1,940**	**-**	**2,850**
- Due from Banks, Central Banks and Other Financial Assets	**87**	**-**	**-**	**87**
	13,155	**33,566**	**112,426**	**159,147**
Net transfer between stages				
- Loans and Advances to Customers	**(365)**	**(18,609)**	**18,974**	**-**
- Investment Securities (Debt)	**(120)**	**120**	**-**	**-**
- Loan Commitments and Financial Guarantees	**-**	**-**	**-**	**-**
- Due from Banks, Central Banks and Other Financial Assets	**-**	**-**	**-**	**-**
	(485)	**(18,489)**	**18,974**	**-**
(Release) / charge for the period (net)				
- Loans and Advances to Customers	**(2,432)**	**19,746**	**16,225**	**33,539**
- Investment Securities (Debt)	**102**	**53**	**-**	**155**
- Loan Commitments and Financial Guarantees	**(2)**	**(232)**	**-**	**(234)**
- Due from Banks, Central Banks and Other Financial Assets	**(1)**	**-**	**-**	**(1)**
	(2,333)	**19,567**	**16,225**	**33,459**
Write off for the period				
- Loans and Advances to Customers	**-**	**-**	**(38,188)**	**(38,188)**
	-	**-**	**(38,188)**	**(38,188)**
Closing Balance – as at 31 December 2021				
- Loans and Advances to Customers	**9,043**	**32,763**	**109,437**	**151,243**
- Investment Securities (Debt)	**300**	**173**	**-**	**473**
- Loan Commitments and Financial Guarantees	**908**	**1,708**	**-**	**2,616**
- Due from Banks, Central Banks and Other Financial Assets	**86**	**-**	**-**	**86**
	10,337	**34,644**	**109,437**	**154,418**

NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2021

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.3 Movement in expected credit losses (ECL) as at 31 December 2021

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	USD' 000	*USD' 000*	*USD' 000*	*USD' 000*
Exposure subject to ECL				
- Loans and Advances to Customers	6,447,082	1,523,021	445,194	8,415,297
- Investment Securities	1,147,730	15,000	-	1,162,730
- Loan Commitments and Financial Guarantees	679,385	555,712	-	1,235,097
- Due from Banks, Central Banks and Other Financial Assets	298,108	-	-	298,108
	8,572,305	2,093,733	445,194	11,111,232
Opening Balance - as at 1 January 2021				
- Loans and Advances to Customers	30,753	82,145	292,016	404,914
- Investment Securities (Debt)	826	-	-	826
- Loan Commitments and Financial Guarantees	2,364	5,039	-	7,403
- Due from Banks, Central Banks and Other Financial Assets	226	-	-	226
	34,169	87,184	292,016	413,369
Net transfer between stages				
- Loans and Advances to Customers	(948)	(48,335)	49,283	-
- Investment Securities (Debt)	(312)	312	-	-
- Loan Commitments and Financial Guarantees	-	-	-	-
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	(1,260)	(48,023)	49,283	-
(Release) / charge for the period (net)				
- Loans and Advances to Customers	(6,317)	51,288	42,143	87,114
- Investment Securities (Debt)	265	138	-	403
- Loan Commitments and Financial Guarantees	(5)	(603)	-	(608)
- Due from Banks, Central Banks and Other Financial Assets	(3)	-	-	(3)
	(6,060)	50,823	42,143	86,906
Write off for the period				
- Loans and Advances to Customers	-	-	(99,189)	(99,189)
	-	-	(99,189)	(99,189)
Closing Balance - as at 31 December 2021				
- Loans and Advances to Customers	23,488	85,098	284,253	392,839
- Investment Securities (Debt)	779	450	-	1,229
- Loan Commitments and Financial Guarantees	2,359	4,436	-	6,795
- Due from Banks, Central Banks and Other Financial Assets	223	-	-	223
	26,849	89,984	284,253	401,086

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.3 Movement in expected credit losses (ECL) as at 31 December 2020

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	RO' 000	*RO'000*	*RO'000*	*RO'000*
Exposure subject to ECL				
- Loans and Advances to Customers	2,253,382	621,396	168,976	3,043,754
- Investment Securities	318,852	-	-	318,852
- Loan Commitments and Financial Guarantees	370,466	127,063	-	497,529
- Due from Banks, Central Banks and Other Financial Assets	94,803	-	-	94,803
	3,037,503	748,459	168,976	3,954,938
Opening Balance - as at 1 January 2020				
- Loans and Advances to Customers	12,395	17,445	88,449	118,289
- Investment Securities (Debt)	507	-	-	507
- Loan Commitments and Financial Guarantees	1,114	4,912	-	6,026
- Due from Banks, Central Banks and Other Financial Assets	471	-	-	471
	14,487	22,357	88,449	125,293
Net transfer between stages				
- Loans and Advances to Customers	(708)	(15,514)	16,222	-
- Investment Securities (Debt)	-	-	-	-
- Loan Commitments and Financial Guarantees	-	-	-	-
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	(708)	(15,514)	16,222	-
(Release) / charge for the period (net)				
- Loans and Advances to Customers	153	29,695	13,227	43,075
- Investment Securities (Debt)	(189)	-	-	(189)
- Loan Commitments and Financial Guarantees	(204)	(2,972)	-	(3,176)
- Due from Banks, Central Banks and Other Financial Assets	(384)	-	-	(384)
	(624)	26,723	13,227	39,326
Write off for the period				
- Loans and Advances to Customers	-	-	(5,472)	(5,472)
	-	-	(5,472)	(5,472)
Closing Balance - as at 31 December 2020				
- Loans and Advances to Customers	11,840	31,626	112,426	155,892
- Investment Securities (Debt)	318	-	-	318
- Loan Commitments and Financial Guarantees	910	1,940	-	2,850
- Due from Banks, Central Banks and Other Financial Assets	87	-	-	87
	13,155	33,566	112,426	159,147

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.3 Movement in expected credit losses (ECL) as at 31 December 2020 (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	USD' 000	*USD' 000*	*USD' 000*	*USD' 000*
Exposure subject to ECL				
- Loans and Advances to Customers	5,852,939	1,614,016	438,899	7,905,854
- Investment Securities (Debt)	828,187	-	-	828,187
- Loan Commitments and Financial Guarantees	962,249	330,034	-	1,292,283
- Due from Banks, Central Banks and Other Financial Assets	246,242	-	-	246,242
	7,889,617	1,944,050	438,899	10,272,566
Opening Balance - as at 1 January 2020				
- Loans and Advances to Customers	32,195	45,312	229,737	307,244
- Investment Securities (Debt)	1,317	-	-	1,317
- Loan Commitments and Financial Guarantees	2,894	12,758	-	15,652
- Due from Banks, Central Banks and Other Financial Assets	1,223	-	-	1,223
	37,629	58,070	229,737	325,436
Net transfer between stages				
- Loans and Advances to Customers	(1,839)	(40,296)	42,135	-
- Investment Securities (Debt)	-	-	-	-
- Loan Commitments and Financial Guarantees	-	-	-	-
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	(1,839)	(40,296)	42,135	-
(Release) / charge for the period (net)				
- Loans and Advances to Customers	397	77,130	34,356	111,883
- Investment Securities (Debt)	(491)	-	-	(491)
- Loan Commitments and Financial Guarantees	(530)	(7,719)	-	(8,249)
- Due from Banks, Central Banks and Other Financial Assets	(997)	-	-	(997)
	(1,621)	69,411	34,356	102,146
Write off for the period				
- Loans and Advances to Customers	-	-	(14,213)	(14,213)
	-	-	(14,213)	(14,213)
Closing Balance - as at 31 December 2020				
- Loans and Advances to Customers	30,753	82,146	292,015	404,914
- Investment Securities (Debt)	826	-	-	826
- Loan Commitments and Financial Guarantees	2,364	5,039	-	7,403
- Due from Banks, Central Banks and Other Financial Assets	226	-	-	226
	34,169	87,185	292,015	413,369

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.4 Movement in loans as at 31 December 2021

	Stage 1	***Stage 2***	***Stage 3***	***Total***
	RO' 000	***RO' 000***	***RO' 000***	***RO' 000***
Exposure subject to ECL				
Opening Balance - as at 1 January 2020	**2,253,382**	**621,396**	**168,976**	**3,043,754**
Net transfer between stages	**(9,811)**	**(25,021)**	**34,832**	**-**
New loans and advances	**388,854**	**124,199**	**36,752**	**549,805**
Recovery of loans and advances	**(150,299)**	**(134,211)**	**(30,972)**	**(315,482)**
Write off for the period	**-**	**-**	**(38,188)**	**(38,188)**
Closing Balance - as at 31 December 2021	**2,482,126**	**586,363**	**171,400**	**3,239,889**

	Stage 1	***Stage 2***	***Stage 3***	***Total***
	USD' 000	***USD' 000***	***USD' 000***	***USD' 000***
Exposure subject to ECL				
Opening Balance - as at 1 January 2020	**5,852,939**	**1,614,016**	**438,899**	**7,905,854**
Net transfer between stages	**(25,482)**	**(64,990)**	**90,472**	**-**
New loans and advances	**1,010,012**	**322,595**	**95,460**	**1,428,067**
Recovery of loans and advances	**(390,387)**	**(348,600)**	**(80,447)**	**(819,434)**
Write off for the period	**-**	**-**	**(99,190)**	**(99,190)**
Closing Balance - as at 31 December 2021	**6,447,082**	**1,523,021**	**445,194**	**8,415,297**

Movement in loans as at 31 December 2020

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	RO' 000	*RO' 000*	*RO' 000*	*RO' 000*
Exposure subject to ECL				
Opening Balance - as at 1 January 2019	2,287,047	489,190	143,609	2,919,846
Net transfer between stages	(136,720)	115,170	21,550	-
New loans and advances	390,330	89,767	20,466	500,563
Recovery of loans and advances	(287,274)	(72,731)	(11,178)	(371,183)
Write off for the period			(5,472)	(5,472)
Closing Balance - as at 31 December 2020	2,253,383	621,396	168,975	3,043,754

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	USD' 000	*USD' 000*	*USD' 000*	*USD' 000*
Exposure subject to ECL				
Opening Balance - as at 1 January 2019	5,940,382	1,270,623	373,010	7,584,015
Net transfer between stages	(355,117)	299,143	55,974	-
New loans and advances	1,013,843	233,162	53,159	1,300,164
Recovery of loans and advances	(746,166)	(188,912)	(29,034)	(964,112)
Write off for the period	-	-	(14,213)	(14,213)
Closing Balance - as at 31 December 2020	5,852,942	1,614,016	438,896	7,905,854

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.5 Movement in impairment credit losses for the period ended 31 December 2021

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
		(Impairment)/reversal of allowances for credit losses:		
997	**3**	Due from Banks	**1**	384
(103,223)	**(75,826)**	Loans and advances to customers	**(29,193)**	(39,741)
491	**(403)**	Investments	**(155)**	189
8,249	**608**	Financial guarantees	**234**	3,176
(93,486)	**(75,618)**	**Total**	**(29,113)**	(35,992)
6,265	**4,026**	Recoveries and releases from provision for credit losses	**1,550**	2,412
5,847	**9,293**	Recoveries and releases from loans and advances written off	**3,578**	2,251
12,112	**13,319**	**Total**	**5,128**	4,663
(81,374)	**(62,299)**	**Net Impairment losses**	**(23,985)**	(31,329)

29 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank conducts transactions with certain of its directors, shareholders, senior management and companies over which they have significant interest. Principal shareholders comprises of all shareholders with holding more than 10% of the paidup share capital and others include directors, senior management and associate companies of principal shareholders and directors. The Bank engages in transactions with related parties only on arm's length terms and in accordance with relevant laws and regulations. Terms of these transactions are approved by the Bank's Board and Management.

The aggregate amounts of balances with such related parties are as follows:

	2021			*2020*		
	Principal shareholders RO'000	***Others RO'000***	***Total RO'000***	*Principal shareholders RO'000*	*Others RO'000*	*Total RO'000*
Loans and advances	-	147,445	147,445	-	121,307	121,307
Customers' deposits	106,081	61,386	167,467	25,117	55,375	80,492
Due from Banks	603	-	603	218	-	218
Due to Banks	260	-	260	201	-	201
Letter of credit, guarantees and acceptance	618	16,930	17,548	1,063	13,074	14,137
Standby revolving credit facility	-	-	-	154,000	-	154,000
Investment	2,453	598	3,051	2,272	-	2,272

The statement of profit or loss and other comprehensive income includes the following amounts in relation to transactions with related parties:

Interest income	2	6,807	6,809	19	6,813	6,832
Commission income	6	380	386	5	141	146
Interest expense	1,576	1,341	2,917	3,548	1,549	5,097
Other expenses	-	850	850	-	527	527

29 RELATED PARTY TRANSACTIONS (CONTINUED)

	2021			*2020*		
	Principal shareholders USD'000	***Others USD'000***	***Total USD'000***	*Principal shareholders USD'000*	*Others USD'000*	*Total USD'000*
Loans and advances	-	382,974	382,974	-	315,083	315,083
Customers' deposits	275,535	159,444	434,979	65,239	143,831	209,070
Due from Banks	1,566	-	1,566	566	-	566
Due to Banks	675	-	675	522	-	522
Letter of credit, guarantees and acceptance	1,605	43,974	45,579	2,761	33,958	36,719
Standby revolving credit facility	-	-	-	400,000	-	400,000
Investment	6,371	1,553	7,924	5,901	-	5,901

The statement of profit or loss and other comprehensive income includes following amounts as relation to the transaction with related parties.

	2021			*2020*		
	Principal shareholders USD'000	***Others USD'000***	***Total USD'000***	*Principal shareholders USD'000*	*Others USD'000*	*Total USD'000*
Interest income	5	17,681	17,686	49	17,696	17,745
Commission income	16	987	1,003	13	366	379
Interest expense	4,094	3,483	7,577	9,216	4,023	13,239
Other expenses	-	2,208	2,208	-	1,369	1,369

Details regarding senior management compensation are set out below:

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
		Salaries and other benefits		
7,395	**5,987**	- Fixed	**2,305**	2,847
3,403	**4,865**	- Discretionary	**1,873**	1,310
10,798	**10,852**		**4,178**	4,157

30 BASIC AND DILUTED EARNINGS PER SHARE

	2021	*2020*
	RO'000	*RO'000*
Net Profit after tax (RO'000s)	**30,277**	18,148
Less: Interest on tier 1 perpetual bond	**(8,462)**	(9,096)
Profit attributable to shareholders	**21,815**	9,052
Weighted average number of shares outstanding during the year (in '000s)	**1,625,946**	1,625,946
Earnings per share (RO)	**0.013**	0.006

	2021	*2020*
	USD'000	*USD'000*
Net Profit after tax (USD'000s)	**78,643**	47,139
Less: Interest on tier 1 perpetual bond	**(21,979)**	(23,626)
Profit attributable to shareholders	**56,664**	23,513
Weighted average number of shares outstanding during the year (in '000s)	**1,625,946**	1,625,946
Earnings per share (USD)	**0.03**	0.01

No figure for diluted earnings per share has been presented, as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

31 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Oman in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

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 ratios 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. The Capital Management Policy was revised during the year to incorporate the regulatory changes.

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

2020	***2021***		***2021***	*2020*
USD'000	***USD'000***		***RO'000***	*RO'000*
		Capital base		
1,046,278	**1,090,896**	Common equity Tier 1 - shareholders' funds	**419,995**	402,817
300,000	**300,000**	Additional Tier 1 - capital	**115,500**	115,500
88,153	**68,629**	Tier 2 - subordinated debt and collective impairment provisions	**26,422**	33,939
1,434,431	**1,459,525**	Total capital base	**561,917**	552,256
		Risk weighted assets		
7,980,478	**8,395,616**	Credit risk	**3,232,312**	3,072,484
607,670	**598,478**	Operational risk	**230,414**	233,953
135,509	**248,356**	Market risk	**95,617**	52,171
8,723,657	**9,242,450**	Total risk weighted assets	**3,558,343**	3,358,608
12.0%	**11.8%**	Common Equity Tier 1 Ratio	**11.8%**	12.0%
15.4%	**15.0%**	Tier 1 Ratio	**15.0%**	15.4%
16.4%	**15.8%**	Risk asset ratio (Basel II norms)	**15.8%**	16.4%

32 RISK MANAGEMENT

Effective risk management is of primary importance for the Bank. The Bank's risk management process evaluates, monitors and manages the risks associated with the businesses the Bank conducts in line with the defined risk appetite. The Bank's key risks are credit risk, market risk, operational risk and strategic risk. The Bank operates on the guiding principles of three lines of defence i.e. Business, Independent control functions and internal audit. The risk management function is headed by the CRO with a team of risk professionals to manage specific risk functions.

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK

Credit risk is the risk of potential loss in the event that the Bank's customers, clients or counterparties fail to honour their financial and contractual obligations to the Bank. Credit risk is one of the most significant risks for the Bank. The Bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman.

Credit risk management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman; the risk framework is provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on the delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments. The Bank also undertakes stress testing of its portfolio and potential credit costs in the event of a downgrade or default by its customers.

Corporate credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking, Financial Institutions as well as Small and Medium enterprise exposures. The credit risk associated with any corporate financing is assessed based on an analysis of the customer and the industry it operates in. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit assessments. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The Bank follows a risk adjusted return of capital model for benchmarking risk pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The Bank has implemented a customised Moody's Risk Analyst model for risk rating 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, public companies and large exposures. Further, the Bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines. The Bank also undertook a weekly review across all its business segments of early warning accounts, which showed signs of stress, and remedial action prescribed as necessary.

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include:-

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures

The Bank introduced prudent control measures for its UAE operations in line with the changing operating environment detailed below

- Revised business focus on Oman-UAE business corridor with emphasis on businesses sponsored by Omani or reputed UAE nationals.
- Enhanced Due diligence and strengthened KYC processes
- Revised Standard Operating Procedures in line with changing business needs.

Retail credit

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by Risk Committee of the Board. The lending criteria for these programs are regularly reviewed and, if required revised, based on an on-going analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Retail Credit Risk Division and recommended to the delegated authorities.

A review of the Retail Credit Portfolio is conducted on a quarterly basis and provided to the Management Risk Committee, and to the Board Risk Committee. Monthly management reports are also prepared and submitted to the CRO and to the Business Heads. Salient areas covered in the review include:

- Portfolio quality
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the quarter.

System enhancements and continuous improvements have been made on all processes that are critical to improve quality of overall retail portfolio. The Bank has a lending strategy through the adoption of pre-defined lending criteria and continuous monitoring of the portfolio, and has implemented a Credit application Scoring Module for its salary related loan portfolio to enhance the Retail Credit Risk framework.

Loan review mechanism

The Bank has an independent Loan Review Mechanism Division (LRM) with a mandate for constantly evaluating the quality of the loan book, and the balance between risk and reward and to bring about qualitative improvements in credit administration. The division evaluates the effectiveness of loan administration, integrity of the credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc. In addition to the above the LRM team reviews the Bank's effectiveness of approved internal controls and procedures to ensure robust and sound practices are being followed by all stake holders. LRM also performs independent ad hoc reviews, investigations and assessments as directed by management on areas of concern relating to the credit approval process and/or the analysis processes within the Bank. Significant findings are reported to the CRO, the MRC and potentially to the BRC where warranted.

Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Maximum exposure to credit risk

Gross maximum exposure 2020 USD'000	***Gross maximum exposure 2021 USD'000***		***Gross maximum exposure 2021 RO '000***	*Gross maximum exposure 2020 RO '000*
398,794	**693,493**	Balances with Central Banks	**266,995**	153,536
246,242	**298,108**	Due from Banks and other money market placements	**114,771**	94,803
7,905,853	**8,415,297**	Loans, advances and financing activities for customers	**3,239,889**	3,043,754
793,600	**1,058,891**	Financial investments	**407,673**	305,536
125,507	**155,078**	Other assets	**59,705**	48,320
11,753	**8,029**	Derivatives	**3,091**	4,525
9,481,749	**10,628,896**	**Total on balance sheet exposure**	**4,092,124**	3,650,474
732,382	**734,730**	Guarantees	**282,871**	281,967
101,143	**190,587**	Documentary letters of credit	**73,376**	38,940
458,758	**309,779**	Undrawn commitment	**119,265**	176,622
1,292,283	**1,235,096**	**Total off-balance sheet exposure**	**475,512**	497,529

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.

An ageing analysis of the Bank's loans which are past due but not impaired is set out below:

	Loans in arrears 1-30 days RO'000	***Loans in arrears 31-60 days RO'000***	***Loans in arrears 61-89 days RO'000***	***Total RO'000***
Loans and advances to customers at				
31 December 2021	**67,145**	**6,142**	**8,160**	**81,447**
31 December 2021 – USD'000s	**174,403**	**15,953**	**21,195**	**211,551**
31 December 2020	57,435	6,914	4,943	69,292
31 December 2020 – USD'000s	149,182	17,958	12,839	179,979

Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is the common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Charges over business assets such as property, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties
- Pledge of marketable shares and securities

The housing loans are secured by mortgage over the residential property.
The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

An analysis of the collateral held and other credit enhancement held against loan and advances granted is as follows:

	Stage 1 RO'000	*Stage 2 RO'000*	*Stage 3 RO'000*	*Total RO'000*
Collateral available	**1,808,222**	**78,868**	**58,879**	**1,945,969**
Government guarantee loans	**38,500**	**-**	**2,676**	**41,176**
Balance As at 31 December 2021	**1,846,722**	**78,868**	**61,555**	**1,987,145**
Balance As at 31 December 2021 – USD'000s	**4,796,681**	**204,852**	**159,883**	**5,161,416**
Balance as at 31 December 2020	1,903,620	63,469	57,091	2,024,180
Balance as at 31 December 2020 – USD'000s	4,944,467	164,855	148,288	5,257,610

The amount of total secured loans and advances is less than the total value of collateral as stated above.

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of **31 December 2021**:

	Stage 1 RO'000	*Stage 2 RO'000*	*Stage 3 RO'000*	*Total RO'000*
Gross loans and advances to customers - corporate Banking				
Performing loans (Grades 1-5)	**990,014**	**289,476**	**-**	**1,279,490**
Performing loans (Grades 6)	**166,838**	**138,507**	**-**	**305,345**
Performing loans (Grades 7)	**-**	**106,466**	**-**	**106,466**
Non-performing loans (Grades 8-10)	**-**	**-**	**139,517**	**139,517**
Gross loans and advances to customers - corporate Banking	**1,156,852**	**534,449**	**139,517**	**1,830,818**
Gross loans and advances to customers – retail Banking				
Performing loans (Grades 1-7)	**1,325,277**	**51,913**	**-**	**1,377,190**
Non-performing loans (Grades 8-10)	**-**	**-**	**31,881**	**31,881**
Gross loans and advances to customers - retail Banking	**1,325,277**	**51,913**	**31,881**	**1,409,071**
Total gross loans and advances to customers	**2,482,129**	**586,362**	**171,398**	**3,239,889**
Loss allowance-carrying amount	**11,023**	**28,552**	**105,908**	**145,483**
Credit related contingent items				
Performing loans (Grades 1-5)	**214,061**	**52,259**	**-**	**266,320**
Performing loans (Grades 6)	**21,955**	**18,555**	**-**	**40,510**
Performing loans (Grades 7)	**-**	**35,323**	**-**	**35,323**
Non-performing loans (Grades 8-10)	**-**	**-**	**14,094**	**14,094**
Total gross credit related contingent items	**236,016**	**106,137**	**14,094**	**356,247**
Loss allowance-carrying amount	**1,390**	**2,774**	**7,360**	**11,524**

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	97,587	-	-	97,587
Performing Banks (B1 to Ba2)	14,687	-	-	14,687
Performing Banks (Unrated)	2,497	-	-	2,497
Due from Banks and money market placements	114,771	-	-	114,771
Loss allowance-carrying amount	86	-	-	86
Investment securities	441,876	5,775	-	447,651
Loss allowance-carrying amount	300	173	-	473

	USD'000	*USD'000*	*USD'000*	*USD'000*
Gross loans and advances to customers - corporate Banking				
Performing loans (Grades 1-5)	2,571,464	751,886	-	3,323,350
Performing loans (Grades 6)	433,346	359,758	-	793,104
Performing loans (Grades 7)	-	276,535	-	276,535
Non-performing loans (Grades 8-10)	-	-	362,382	362,382
Gross loans and advances to customers - corporate Banking	3,004,810	1,388,179	362,382	4,755,371
Gross loans and advances to customers – retail Banking				
Performing loans (Grades 1-7)	3,442,278	134,839	-	3,577,117
Non-performing loans (Grades 8-10)	-	-	82,808	82,808
Gross loans and advances to customers - retail Banking	3,442,278	134,839	82,808	3,659,925
Total gross loans and advances to customers	6,447,088	1,523,018	445,190	8,415,296
Loss allowance-carrying amount	28,631	74,161	275,086	377,878
Credit related contingent items				
Performing loans (Grades 1-5)	556,002	135,738	-	691,740
Performing loans (Grades 6)	57,026	48,195	-	105,221
Performing loans (Grades 7)	-	91,748	-	91,748
Non-performing loans (Grades 8-10)	-	-	36,608	36,608
Total gross credit related contingent items	613,028	275,681	36,608	925,317
Loss allowance-carrying amount	3,610	7,205	19,117	29,932
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	253,472	-	-	253,472
Performing Banks (B1 to Ba2)	38,148	-	-	38,148
Performing Banks (Unrated)	6,486	-	-	6,486
Due from Banks and money market placements	298,106	-	-	298,106
Loss allowance-carrying amount	223	-	-	223
Investment securities	1,147,730	15,000	-	1,162,730
Loss allowance-carrying amount	779	450	-	1,229

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2020:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Gross loans and advances to customers - corporate Banking				
Performing loans (Grades 1-5)	744,273	403,430	-	1,147,703
Performing loans (Grades 6)	187,491	70,058	-	257,549
Performing loans (Grades 7)	-	110,668	-	110,668
Non-performing loans (Grades 8-10)	-	-	130,954	130,954
Gross loans and advances to customers - corporate Banking	931,764	584,156	130,954	1,646,874
Gross loans and advances to customers – retail Banking				
Performing loans (Grades 1-7)	1,319,287	39,571	-	1,358,858
Non-performing loans (Grades 8-10)	-	-	38,022	38,022
Gross loans and advances to customers - retail Banking	1,319,287	39,571	38,022	1,396,880
Total gross loans and advances to customers	2,251,051	623,727	168,976	3,043,754
Loss allowance-carrying amount	11,840	31,625	112,427	155,892
Credit related contingent items				
Performing loans (Grades 1-5)	114,084	58,636	-	172,720
Performing loans (Grades 6)	32,432	33,192	-	65,624
Performing loans (Grades 7)	-	27,258	-	27,258
Total gross credit related contingent items	146,516	119,086	-	265,602
Loss allowance-carrying amount	910	1,940	-	2,850
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	65,732	-	-	65,732
Performing Banks (B1 to Ba2)	17,083	-	-	17,083
Performing Banks (Unrated)	11,988	-	-	11,988
Due from Banks and money market placements	94,803	-	-	94,803
Loss allowance-carrying amount	87	-	-	87
Investment securities	342,521	-	-	342,521
Loss allowance-carrying amount	318	-	-	318

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2020:

	USD'000	*USD'000*	*USD'000*	*USD'000*
Gross loans and advances to customers - corporate Banking				
Performing loans (Grades 1-5)	1,933,177	1,047,870	-	2,981,047
Performing loans (Grades 6)	486,990	181,969	-	668,959
Performing loans (Grades 7)	-	287,449	-	287,449
Non-performing loans (Grades 8-10)	-	-	340,140	340,140
Gross loans and advances to customers - corporate Banking	2,420,167	1,517,288	340,140	4,277,595
Gross loans and advances to customers – retail Banking				
Performing loans (Grades 1-7)	3,426,719	102,782	-	3,529,501
Non-performing loans (Grades 8-10)	-	-	98,758	98,758
Gross loans and advances to customers - retail Banking	3,426,719	102,782	98,758	3,628,259
Total gross loans and advances to customers	5,846,886	1,620,070	438,898	7,905,854
Loss allowance-carrying amount	30,753	82,143	292,018	404,914
Credit related contingent items				
Performing loans (Grades 1-5)	296,322	152,301	-	448,623
Performing loans (Grades 6)	84,239	86,213	-	170,452
Performing loans (Grades 7)	-	70,800	-	70,800
Total gross credit related contingent items	380,561	309,314	-	689,875
Loss allowance-carrying amount	2,364	5,039	-	7,403
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	170,737	-	-	170,737
Performing Banks (B1 to Ba2)	44,370	-	-	44,370
Performing Banks (Unrated)	31,136	-	-	31,136
Due from Banks and money market placements	246,243	-	-	246,243
Loss allowance-carrying amount	226	-	-	226
Investment securities	889,665	-	-	889,665
Loss allowance-carrying amount	826	-	-	826

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Impairment assessment

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for Bankruptcy application/protection.
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Impairment assessment (CONTINUED)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Bank formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Given the nature of the Bank's exposures and availability of historical statistically reliable information, the Bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman)
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 42 USD/barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:
   a. historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
   b. size of the detachment equal to plus/minus 0.87 standard deviation from the base scenario as an approximate representation of 33.33% probability of alternative (adverse and favourable) scenarios,
   c. the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).
4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

Key drivers	ECL scenario and assigned weightage	31 December 2021			31 December 2020		
		2022	2023	2024	2021	2022	2023
Real Interest Rate	Base scenario	7.1%	7.1%	7.1%	7.6%	7.6%	7.6%
	Upside scenario	3.2%	4.7%	5.4%	5.8%	6.4%	6.9%
	Downside scenario	13.0%	11.5%	10.6%	8.9%	8.1%	7.4%
GDP	Base scenario	11.0%	3.5%	3.5%	4.3%	4.3%	4.3%
	Upside scenario	11.0%	4.5%	3.9%	5.1%	4.3%	4.2%
	Downside scenario	11.0%	2.3%	3.1%	2.9%	3.6%	3.7%
GDP per capita	Base scenario	6.9%	-0.4%	-0.4%	0.2%	0.7%	0.1%
	Upside scenario	6.9%	0.5%	-0.1%	1.1%	0.4%	0.2%
	Downside scenario	6.9%	-1.3%	-0.9%	-1.0%	-0.4%	-0.2%

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Impairment assessment (CONTINUED)

Treasury, trading and interbank relationships
The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, Banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data and assigns the internal rating.

Corporate and commercial lending
For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages
Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:
- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:
- Interest rate, given its impact on companies' likelihood of default; and
- GDP, given the significant impact on companies' performance and collateral valuations;
- Unemployment rate, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Impairment assessment (CONTINUED)

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Loss given default

For corporate and investment Banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank.

The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant Increase in Credit Risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.
c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
d. Frequent changes in key senior management personnel without acceptable successors or professional management.
e. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
f. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Impairment assessment (CONTINUED)

Model risk management:

The Bank has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Bank has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a Bank wide policy and is applicable to all models of the Bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRCC.

The Bank has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defence for the Bank in terms of usage of models.

32.2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on the Central Bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly through analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the Bank also periodically conducts stress tests on liquidity based on market and Bank specific events in line with Basel Committee recommendations. The liquidity position of the Bank and stress test scenarios are regularly reviewed by the management and also discussed at the Board Risk Committee.

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one year horizon. It is effective January 2020, with a minimum ratio of 100% as per the regulatory guidance.

32 RISK MANAGEMENT (CONTINUED)

32.2 LIQUIDITY RISK (CONTINUED)

The residual maturity behavioral of the assets, liabilities and equity at **31 December 2021** is as follows:

	On demand within 3 months	*3 to 12 months*	*Subtotal less than 12 months*	*1 to 5 years*	*Over 5 years*	*Subtotal over 12 months*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Cash and balances with Central Banks	206,334	50,095	256,429	22,484	28,957	51,441	307,870
Due from Banks and other money market placements (net)	89,948	8,181	98,129	16,556	-	16,556	114,685
Loans, advances and financing activities for customers (net)	499,629	221,926	721,555	805,820	1,561,271	2,367,091	3,088,646
Financial investments	153,790	12,553	166,343	110,947	169,888	280,835	447,178
Property and equipment	-	-	-	-	59,892	59,892	59,892
Other assets	53,683	8,990	62,673	123	-	123	62,796
Total assets	1,003,384	301,745	1,305,129	955,930	1,820,008	2,775,938	4,081,067
Due to Banks and other money market deposits	132,176	11,553	143,729	154,000	-	154,000	297,729
Customers' deposits and unrestricted investment accounts	730,578	974,150	1,704,728	655,374	557,630	1,213,004	2,917,732
Euro medium term notes	-	-	-	192,500	-	192,500	192,500
Other liabilities	100,495	2,220	102,715	1,289	472	1,761	104,476
Taxation	13,175	-	13,175	-	-	-	13,175
Shareholders' equity	-	-	-	-	439,955	439,955	439,955
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	976,424	987,923	1,964,347	1,003,163	1,113,557	2,116,720	4,081,067

	On demand within 3 months	*3 to 12 months*	*Subtotal less than 12 months*	*1 to 5 years*	*Over 5 years*	*Subtotal over 12 months*	*Total*
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Cash and balances with Central Banks	535,932	130,117	666,049	58,400	75,213	133,613	799,662
Due from Banks and other money market placements (net)	233,631	21,249	254,880	43,003	-	43,003	297,883
Loans, advances and financing activities for customers (net)	1,297,739	576,431	1,874,170	2,093,039	4,055,249	6,148,288	8,022,458
Financial investments	399,454	32,605	432,059	288,174	441,268	729,442	1,161,501
Property and equipment	-	-	-	-	155,564	155,564	155,564
Other assets	139,437	23,351	162,788	319	-	319	163,107
Total assets	2,606,193	783,753	3,389,946	2,482,935	4,727,294	7,210,229	10,600,175
Due to Banks and other money market deposits	343,314	30,008	373,322	400,000	-	400,000	773,322
Customers' deposits and unrestricted investment accounts	1,897,605	2,530,260	4,427,865	1,702,270	1,448,390	3,150,660	7,578,525
Euro medium term notes	-	-	-	500,000	-	500,000	500,000
Other liabilities	261,025	5,766	266,791	3,348	1,227	4,575	271,366
Taxation	34,221	-	34,221	-	-	-	34,221
Shareholders' equity	-	-	-	-	1,142,741	1,142,741	1,142,741
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
Total liabilities and shareholders' equity	2,536,165	2,566,034	5,102,199	2,605,618	2,892,358	5,497,976	10,600,175

32 RISK MANAGEMENT (CONTINUED)

32.2 LIQUIDITY RISK (CONTINUED)

The maturity profile of the assets, liabilities and equity at 31 December 2020 is as follows:

	On demand within 3 months	*3 to 12 months*	*Subtotal less than 12 months*	*1 to 5 years*	*Over 5 years*	*Subtotal over 12 months*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Cash and balances with Central Banks	124,684	30,207	154,891	21,409	16,157	37,566	192,457
Due from Banks and other money market placements (net)	76,621	14,245	90,866	3,850	-	3,850	94,716
Loans, advances and financing activities for customers (net)	439,119	237,931	677,050	767,790	1,443,022	2,210,812	2,887,862
Financial investments	86,574	2,998	89,572	94,547	158,084	252,631	342,203
Property and equipment	-	-	-	-	62,568	62,568	62,568
Other assets	41,738	10,659	52,397	448	-	448	52,845
Total assets	768,736	296,040	1,064,776	888,044	1,679,831	2,567,875	3,632,651
Due to Banks and other money market deposits	118,638	16,085	134,723	154,000	-	154,000	288,723
Customers' deposits and unrestricted investment accounts	588,819	861,846	1,450,665	624,505	452,009	1,076,514	2,527,179
Euro medium term notes	-	-	-	192,500	-	192,500	192,500
Other liabilities	81,970	981	82,951	1,327	170	1,497	84,448
Taxation	9,568	-	9,568	-	-	-	9,568
Shareholders' equity	-	-	-	-	414,733	414,733	414,733
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	798,995	878,912	1,677,907	972,332	982,412	1,954,744	3,632,651

	On demand within 3 months	*3 to 12 months*	*Subtotal less than 12 months*	*1 to 5 years*	*Over 5 years*	*Subtotal over 12 months*	*Total*
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Cash and balances with Central Banks	323,854	78,460	402,314	55,608	41,966	97,574	499,888
Due from Banks and other money market placements (net)	199,016	37,000	236,016	10,000	-	10,000	246,016
Loans, advances and financing activities for customers (net)	1,140,569	618,003	1,758,572	1,994,260	3,748,108	5,742,368	7,500,940
Financial investments	224,867	7,787	232,654	245,577	410,608	656,185	888,839
Property and equipment	-	-	-	-	162,514	162,514	162,514
Other assets	108,410	27,686	136,096	1,164	-	1,164	137,260
Total assets	1,996,716	768,936	2,765,652	2,306,609	4,363,196	6,669,805	9,435,457
Due to Banks and other money market deposits	308,151	41,779	349,930	400,000	-	400,000	749,930
Customers' deposits and unrestricted investment accounts	1,529,400	2,238,561	3,767,961	1,622,091	1,174,049	2,796,140	6,564,101
Euro medium term notes	-	-	-	500,000	-	500,000	500,000
Other liabilities	212,908	2,548	215,456	3,447	442	3,889	219,345
Taxation	24,852	-	24,852	-	-	-	24,852
Shareholders' equity	-	-	-	-	1,077,229	1,077,229	1,077,229
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
Total liabilities and shareholders' equity	2,075,311	2,282,888	4,358,199	2,525,538	2,551,720	5,077,258	9,435,457

32 RISK MANAGEMENT (CONTINUED)

32.2 LIQUIDITY RISK (CONTINUED)

Liquidity coverage ratio

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on 1 January, 2020.

Total unweighted Value (average) 2021 *USD'000*	Total weighted Value (average) 2021 *USD'000*		Total unweighted Value (average) 2021 *RO'000*	Total weighted Value (average) 2021 *RO'000*
		HIGH QUALITY LIQUID ASSETS		
-	1,783,460	**HIGH QUALITY LIQUID ASSETS**		686,632
		Cash outflows		
2,002,571	114,784	**Retail deposits and deposits from small business customers of which**:	770,990	44,193
1,538,683	68,394	Stable deposits	592,393	26,332
463,888	46,390	Less stable deposits	178,597	17,860
		Unsecured wholesale funding, of which:		
3,626,491	1,443,260	Operational deposits (all counterparties) and deposits in networks of cooperative Banks	1,396,199	555,655
71,797	7,179	Additional requirements, of which Credit and liquidity facilities	27,642	2,764
1,060,039	141,145	Other contingent funding obligations	408,115	54,341
6,760,898	1,706,368	**TOTAL CASH OUTFLOWS**	2,602,946	656,953
		Cash Inflows		
712,270	411,499	Inflows from fully performing exposures	274,224	158,427
47,262	120,275	Other cash inflows	18,196	46,306
759,532	531,774	**TOTAL CASH INFLOWS**	292,420	204,733
-	1,783,460	**TOTAL HIGH QUALITY LIQUID ASSETS**	-	686,632
-	1,177,909	**TOTAL NET CASH OUTFLOWS**	-	453,495
-	151.41	**LIQUIDITY COVERAGE RATIO (%)**	-	151.41

32.3 MARKET RISK

The Bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the Bank will fluctuate due to changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests are also conducted periodically incorporating adverse movements in equity value, foreign exchange, etc. and reviewed by the Management and Board Risk Committee.

32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (continued)

The Bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The Bank has adopted risk weightings in line with best practices to capture the credit risk related to these off-balance sheet exposures.

- ***Equity risk***

The proprietary equity positions are held in the 'FVOCI' category. The market risk is monitored though daily mark-to-market reports which are circulated to the management and, if any, required actions are promptly taken. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

- ***Interest rate risk***

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

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 re-pricing of assets and liabilities.

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are Maturity Gap Analysis (which measures the interest rate sensitivity of earnings) and Duration (which measures the interest rate sensitivity of capital). These are in line with the BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standardized interest rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in interest rate is provided below:

As at December 2021	**200 bps increase**	**200 bps decrease**
Earnings impact - RO'000s	**11,737**	**(11,737)**
Earnings impact - USD'000s	**30,486**	**(30,486)**

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

The Bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analyses are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings and presented to the Board Risk Committee.

32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (CONTINUED)

- ***IBOR Reform***

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a project to manage the transition for any of its contracts that could be affected. The project is being led by senior representatives from functions across the Bank including the client facing teams, Legal, Finance, Operations, Risk Management and Technology.

IBOR reform exposes the Group to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

• Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform

• Financial risk to the Group and its clients that markets are disrupted due to IBOR reform giving rise to financial losses

• Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable

• Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available

• Accounting risk if the Group's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

The Bank monitors the progress of transition from IBORs by maintaining a database of the contracts that have yet to transition to an alternative benchmark rate. In March 2021, the Financial Conduct Authority (FCA), as the regulator of ICE (the authorised administrator of LIBOR), announced that after 31 December 2021 LIBOR settings for sterling, euro and the one-week and two-month US dollar settings will either cease to be provided or no longer be representative. The remaining US dollar settings will either cease to be provided or no longer be representative after 30 June 2023.

32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (CONTINUED)

Interest rate risk (continued)

There have not been any significant changes in Interest Rate Risk management process in the Bank during the year.

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2021 is as follows:

	Average effective interest rate	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Non-interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Banks	N/A	-	-	-	-	307,870	307,870
Due from Banks and other money market placements (net)	0.49%	5,482	6,256	9,626	-	93,321	114,685
Loans, advances and islamic financing assets (net)	5.24%	1,202,123	723,847	668,511	494,165	-	3,088,646
Financial investments	4.45%	15,000	2,553	111,898	183,334	134,393	447,178
Property and equipment	N/A	-	-	-	-	59,892	59,892
Other assets	N/A	-	-	-	-	62,796	62,796
Total assets		1,222,605	732,656	790,035	677,499	658,272	4,081,067
Due to Banks and other money market deposits	1.84%	281,510	11,553	-	-	4,666	297,729
Customers' deposits and unrestricted investment accounts	2.29%	156,652	1,826,752	342,556	63	591,709	2,917,732
Euro medium term notes	5.89%	-	-	192,500	-	-	192,500
Other liabilities	N/A	852	2,862	1,925	-	98,837	104,476
Taxation	N/A	-	-	-	-	13,175	13,175
Tier 1 Perpetual Bond	7.33%	-	115,500	-	-	-	115,500
Shareholders' equity	N/A	-	-	-	-	439,955	439,955
Total liabilities and shareholders' equity		439,014	1,956,667	536,981	63	1,148,342	4,081,067
Total interest rate sensitivity gap		783,591	(1,224,011)	253,054	677,436	(490,070)	-
Cumulative interest rate sensitivity gap		783,591	(440,420)	(187,366)	490,070	-	

32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (CONTINUED)

Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2021 is as follows:

	Average effective interest rate	*On demand within 3 months USD'000*	*3 to 12 months USD'000*	*1 to 5 years USD'000*	*Over 5 years USD'000*	*Non interest sensitive USD'000*	*Total USD'000*
Cash and balances with Central Banks	**N/A**	**-**	**-**	**-**	**-**	**799,662**	**799,662**
Due from Banks and other money market placements (net)	**0.49%**	**14,239**	**16,249**	**25,003**	**-**	**242,392**	**297,883**
Loans, advances and islamic financing assets (net)	**5.24%**	**3,122,398**	**1,880,122**	**1,736,392**	**1,283,545**	**-**	**8,022,457**
Financial investments	**4.45%**	**38,961**	**6,631**	**290,644**	**476,192**	**349,073**	**1,161,501**
Property and equipment	**N/A**	**-**	**-**	**-**	**-**	**155,564**	**155,564**
Other assets	**N/A**	**-**	**-**	**-**	**-**	**163,107**	**163,107**
Total assets		**3,175,598**	**1,903,002**	**2,052,039**	**1,759,737**	**1,709,798**	**10,600,174**
Due to Banks and other money market deposits	**1.84%**	**731,195**	**30,008**	**-**	**-**	**12,119**	**773,322**
Customers' deposits and unrestricted investment accounts	**2.29%**	**406,889**	**4,744,810**	**889,756**	**164**	**1,536,906**	**7,578,525**
Euro medium term notes	**5.89%**	**-**	**-**	**500,000**	**-**	**-**	**500,000**
Other liabilities	**N/A**	**2,212**	**7,434**	**5,000**	**-**	**256,719**	**271,365**
Taxation	**N/A**	**-**	**-**	**-**	**-**	**34,221**	**34,221**
Tier 1 Perpetual Bond	**7.33%**	**-**	**300,000**	**-**	**-**	**-**	**300,000**
Shareholders' equity	**N/A**	**-**	**-**	**-**	**-**	**1,142,741**	**1,142,741**
Total liabilities and shareholders' equity		**1,140,296**	**5,082,252**	**1,394,756**	**164**	**2,982,706**	**10,600,174**
Total interest rate sensitivity gap		**2,035,302**	**(3,179,250)**	**657,283**	**1,759,573**	**(1,272,908)**	**-**
Cumulative interest rate sensitivity gap		**2,035,302**	**(1,143,948)**	**(486,665)**	**1,272,908**	**-**	

32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (CONTINUED)

Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2020 is as follows:

	Average effective interest rate	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Non-interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Banks	-	-	-	-	-	192,457	192,457
Due from Banks and other money market placements (net)	1.32%	57,867	12,705	3,850	-	20,294	94,716
Loans, advances and islamic financing assets (net)	5.42%	1,039,284	642,749	623,468	582,361	-	2,887,862
Financial investments	5.26%	46,517	8,975	92,143	151,746	42,822	342,203
Property and equipment	N/A	-	-	-	-	62,568	62,568
Other assets	N/A	-	-	-	-	52,845	52,845
Total assets		1,143,668	664,429	719,461	734,107	370,986	3,632,651
Due to Banks and other money market deposits	2.33%	157,138	16,085	11,550	-	103,950	288,723
Customers' deposits and unrestricted investment accounts	2.26%	192,684	1,580,316	303,225	66	450,888	2,527,179
Euro medium term notes	5.85%	-	-	192,500	-	-	192,500
Other liabilities	N/A	-	-	-	-	84,448	84,448
Taxation	N/A	-	-	-	-	9,568	9,568
Tier 1 Perpetual Bond	7.88%	-	115,500	-	-	-	115,500
Shareholders' equity	N/A	-	-	-	-	414,733	414,733
Total liabilities and shareholders' equity		349,822	1,711,901	507,275	66	1,063,587	3,632,651
Total interest rate sensitivity gap		793,846	(1,047,472)	212,186	734,041	(692,601)	-
Cumulative interest rate sensitivity gap		793,846	(253,626)	(41,440)	692,601	-	

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32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (CONTINUED)

Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2020 is as follows:

	Average effective interest rate	*On demand within 3 months USD'000*	*3 to 12 months USD'000*	*1 to 5 years USD'000*	*Over 5 years USD'000*	*Non interest sensitive USD'000*	*Total USD'000*
Cash and balances with Central Banks	-	-	-	-	-	499,888	499,888
Due from Banks and other money market placements (net)	1.32%	150,304	33,000	10,000	-	52,712	246,016
Loans, advances and islamic financing assets (net)	5.42%	2,699,439	1,669,478	1,619,397	1,512,626	-	7,500,940
Financial investments	5.26%	120,823	23,312	239,332	394,145	111,227	888,839
Property and equipment	N/A	-	-	-	-	162,514	162,514
Other assets	N/A	-	-	-	-	137,260	137,260
Total assets		2,970,566	1,725,790	1,868,729	1,906,771	963,601	9,435,457
Due to Banks and other money market deposits		408,151	41,779	30,000	-	270,000	749,930
Customers' deposits and unrestricted investment accounts	2.33%	500,478	4,104,717	787,597	171	1,171,138	6,564,101
Euro medium term notes	2.26%	-	-	500,000	-	-	500,000
Other liabilities	5.85%	-	-	-	-	219,345	219,345
Taxation	N/A	-	-	-	-	24,852	24,852
Tier 1 Perpetual Bond	7.88%	-	300,000	-	-	-	300,000
Shareholders' equity	N/A	-	-	-	-	1,077,229	1,077,229
Total liabilities and shareholders' equity	N/A	908,629	4,446,496	1,317,597	171	2,762,564	9,435,457
Total interest rate sensitivity gap		2,061,937	(2,720,706)	551,132	1,906,600	(1,798,963)	-
Cumulative interest rate sensitivity gap		2,061,937	(658,769)	(107,637)	1,798,963	-	

- ***Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The foreign exchange positions in the books of the Bank are generally small residual positions resulting from market coverings for customer transactions.

Foreign exchange VAR is computed monthly for all non-pegged currencies at 99% confidence level and a holding period of 10 days. Additionally earnings impact of a 15% adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

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

2020 USD'000	***2021 USD'000***		***2021 RO'000***	*2020 RO'000*
154,974	**114,725**	US Dollar	**44,169**	59,665
106,200	**109,200**	UAE Dirham	**42,042**	40,887
3,852	**41,101**	Others	**15,824**	1,483

32 RISK MANAGEMENT (CONTINUED)

32.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, frauds or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set-off thresholds are reported to the Board Risk Committee. In addition to this, the Bank has an operational loss reporting database.

Information Security is an essential component of Operational Risk Management. The Bank has implemented the latest security infrastructure like firewalls, intrusion prevention systems, anti-virus soft wares, etc. Periodic vulnerability assessments are conducted to ensure the security of the systems.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical Banking processes are tested to ascertain availability during such situations.

32.4.1 Fraud Risk

The Bank has adopted a 'zero tolerance' policy towards fraud and corruption and as such will seek to take disciplinary and/or legal action against those who perpetrate, are involved in, or assist with fraudulent or improper activities. The Fraud risk management (FRM) unit manages the fraud risk for the Bank at an enterprise level. The unit monitors transactions originating from Cards, POS and other Digital channels. Besides, the unit conducts Fraud Risk Assessments to assess fraud risks on a pro-active basis, verifies the existing controls and proposes new controls, if required.

The unit is also responsible for managing Incidents across the Bank and maintenance of Operational Loss Database.

32.5 STRATEGIC RISKS

The Bank monitors strategic risks through regular quarterly assessment and reporting at the Board Risk Committee level. This includes reviews of human resource, economic (both at the macro and micro levels), regulatory/compliance, information technology and information security, legal and reputational related risks and the monitoring of strategic project risk arising from initiatives undertaken by the Bank. Furthermore, the Bank has augmented its Internal Capital Adequacy Assessment Process (ICAAP) to align the business strategy and the capital management processes. In the course of 2017 the Bank had engaged an internationally renowned consultant to review the current ICAAP process and to recommend enhancements that will, once implemented, escalate the ICAAP process and documentation to international best practices. This initiative was proposed and sponsored at the highest level by the Board Risk Committee and its recommendations are being progressively completed

32 RISK MANAGEMENT (CONTINUED)

32.6 COVID-19

Outbreak of Coronavirus (COVID-19)

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

Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. The Central Banks in Oman and in the UAE had instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan installments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of certain fees, providing capital relief and increasing the lending ratio etc. Some of these measures have been extended until 31 March 2022.

Impact of COVID-19 on the Bank

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

The central Bank of Oman has issued further IFRS 9 related guidances. These are summarized below:

- Measures related to deferment of loan repayment by a borrower may not on its own, trigger the counting of 30 "days past due" (DPD) or more backstop used to determine significant increase in credit risk (SICR) or the 90 days past due backstop used to determine default. However, Banks should continue to assess the obligor's likelihood of payment of amount due after the deferment period, and in case of SICR or credit impairment and if the same is not of a temporary nature, the risks should be recognized.

- The deferment of repayment by borrowers may indicate short term liquidity or cash flow problems and hence the deferment of loan repayment may not be a sole deciding factor for SICR or impairment until and unless Banks have sighted other supportable evidences of credit quality deterioration.

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

- Banks must develop estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions consideration should be given both to the effects of Covid-19 coupled with oil prices and policy measures taken to stabilize the economy.

32 RISK MANAGEMENT (CONTINUED)

32.6 COVID-19 (CONTINUED)

The bank has made appropriate impairment provisions taking note of the above guidelines.

- Nevertheless, any changes made to ECL estimates will be subject to very high levels of uncertainty, as reasonable and supportable forward-looking information may not be currently available to substantiate those changes. As such, the macro-economic forecasts applied in the ECL models couldn't be recalibrated upfront with pre-mature effects of Covid-19 and support measures. Besides the individual and collective LGD's may also get impacted due to Covid-19 effect on market prices of collateral and guarantees. For this reason, Banks are expected to use post model adjustments and management overlays by applying multiple macroeconomic scenarios with careful application of probability weights to each of such scenarios while computing ECL on portfolio basis as prudence.
- The CBO has recently issued guidelines to allow restructuring of credit facilities to borrowers impacted by Covid 19 and who had availed deferrals to be implemented by March 31, 2022. The bank is in discussion with such borrowers to assess and support such a restructuring.

The IFRS 9 Steering Committee 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.

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

Recalibration of IFRS 9 model

Pursuant to a IFRS 9 model validation and recommendations by an independent agency, the bank decided to recalibrate its IFRS 9 models which took into consideration updated portfolio composition and default experience of its wholesale and corporate portfolios. The recalibration also considered refreshed macro-economic forecast which resulted in an updated assessment of impairment provisions. The recalibrated model used by the bank after further review by the independent agency which carried out the validation.

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32 RISK MANAGEMENT (CONTINUED)

32.6 COVID-19 (CONTINUED)

Management overlays:

Given the ever evolving nature of the current health and economic crisis, the Bank's management is of the view that the forward looking macro-economic data and the PD term structures published by the economists and rating agencies during 2021 is yet to reasonably reflect the impact of the economic disruption caused by Covid-19 and also to fully factor in the financial intervention by the relevant state authorities.

Hence, based on regulatory and IASB's guidance, as a measure of prudence, wherever necessary, the Bank has applied management judgment overlays, while computing its ECL with an intention to collectively cover the,

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

In determining above, the management has considered following assumptions:

- Oil price used by the Bank around $42/bbl (31 December 2020: $52/bbl)

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2021 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

	At 31 December 2021		*At 31 December 2020*	
Sensitivity of impairment estimates	**ECL RO 000's**	**Impact on ECL RO 000's**	ECL RO 000's	Impact on ECL RO 000's
ECL on non-impaired loans under IFRS9	**44,983**		46,722	
Simulations				
Upside case - 100% weighted	**41,861**	**3,121**	40,947	5,776
Base case - 100% weighted	**45,362**	**379**	46,355	368
Downside scenario - 100% weighted	**48,776**	**(3,793)**	52,865	(6,143)

Accounting for modification loss:

In case of retail customers, the Bank plans to add the simple interest accrued during the deferral period to the total outstanding and either extend the original maturity period of the loan or increase the instalments. As retail loans have shorter tenor behaviourally, modification loss does not have material impact on the carrying value.

With regard to corporate loans the Bank had extended deferrals only for the principal repayments. A vast majority of customers were servicing the interest accruing on the loans. In rare circumstances, where the deferrals were for the entire installments the corresponding modification loss has not resulted in any significant impact to the carrying value.

32 RISK MANAGEMENT (CONTINUED)

32.6 COVID-19 (CONTINUED)

Stage-wise analysis of customers benefiting from payment deferrals

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

31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
Loans and advances and Islamic financing receivables and acceptances	**210,410**	**276,559**	**3,265**	**490,234**
Off–balance sheet exposures	**20,100**	**3,532**	**-**	**23,632**
Total exposure to customers benefiting from payment deferrals	**230,510**	**280,091**	**3,265**	**513,866**
Total ECL on exposure to customers benefiting from payment deferrals	**2,344**	**11,933**	**1,147**	**15,424**
Of Which:				
Deferred amount	**133,732**	**59,711**	**68**	**193,511**
Allowances for impairment (ECL)	**2,344**	**11,933**	**1,147**	**15,424**
Carrying amount	**136,076**	**71,644**	**1,215**	**208,935**

31 December 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
Loans and advances and Islamic financing receivables and acceptances	1,066,038	363,660	2,301	1,432,000
Off–balance sheet exposures	26,923	9,794	-	36,717
Total exposure to customers benefiting from payment deferrals	1,092,962	373,454	2,301	1,468,717
Total ECL on exposure to customers benefiting from payment deferrals	7,068	10,751	1,071	18,836
Of Which:				
Deferred amount	144,449	71,167	67	215,684
Allowances for impairment (ECL)	7,068	10,751	1,071	18,836
Carrying amount	151,517	81,918	1,138	234,520

Impact on the Capital Adequacy:

Besides, the Bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. The impact of above filter on the Bank's regulatory capital is 51 bps.

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

33 CONCENTRATIONS

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

The distribution of assets, liabilities and contingent items by geographical regions as of 31 December 2021 is as follows:

	Sultanate of Oman RO'000	*UAE RO'000*	*Egypt RO'000*	*Others RO'000*	*Total RO'000*
Cash and balances with Central Banks	**249,001**	**57,269**	**1,600**	**-**	**307,870**
Due from Banks and other money market placements (net)	**9,571**	**3,596**	**3,063**	**98,455**	**114,685**
Loans, advances and islamic financing assets (net)	**3,025,929**	**60,350**	**-**	**2,367**	**3,088,646**
Financial investments	**425,594**	**11,231**	**-**	**10,353**	**447,178**
Property and equipment	**58,453**	**1,439**	**-**	**-**	**59,892**
Other assets	**56,704**	**5,896**	**196**	**-**	**62,796**
Total assets	**3,825,252**	**139,781**	**4,859**	**111,175**	**4,081,067**
Due to Banks and other money market deposits	**-**	**143,160**	**17,518**	**137,051**	**297,729**
Customers' deposits and unrestricted investment accounts	**2,797,006**	**120,215**	**511**	**-**	**2,917,732**
Euro medium term notes	**192,500**	**-**	**-**	**-**	**192,500**
Other liabilities	**101,156**	**2,940**	**380**	**-**	**104,476**
Taxation	**12,808**	**200**	**167**	**-**	**13,175**
Shareholders' equity	**453,304**	**(15,854)**	**2,505**	**-**	**439,955**
Tier 1 perpetual bond	**115,500**	**-**	**-**	**-**	**115,500**
Liabilities and shareholders' equity	**3,672,274**	**250,661**	**21,081**	**137,051**	**4,081,067**
Contingent liabilities	**303,181**	**16,611**	**-**	**36,456**	**356,248**

33 CONCENTRATIONS (CONTINUED)

	Sultanate of Oman USD'000	***UAE USD'000***	***Egypt USD'000***	***Others USD'000***	***Total USD'000***
Cash and balances with Central Banks	**646,755**	**148,751**	**4,156**	**-**	**799,662**
Due from Banks and other money market placements (net)	**24,860**	**9,340**	**7,956**	**255,727**	**297,883**
Loans, advances and islamic financing assets (net)	**7,859,555**	**156,753**	**-**	**6,149**	**8,022,457**
Financial investments	**1,105,439**	**29,171**	**-**	**26,891**	**1,161,501**
Property and equipment	**151,826**	**3,738**	**-**	**-**	**155,564**
Other assets	**147,284**	**15,314**	**509**	**-**	**163,107**
Total assets	**9,935,719**	**363,067**	**12,621**	**288,767**	**10,600,174**
Due to Banks and other money market deposits	**-**	**371,844**	**45,501**	**355,977**	**773,322**
Customers' deposits and unrestricted investment accounts	**7,264,951**	**312,247**	**1,327**	**-**	**7,578,525**
Euro medium term notes	**500,000**	**-**	**-**	**-**	**500,000**
Other liabilities	**262,741**	**7,636**	**988**	**-**	**271,365**
Taxation	**33,268**	**519**	**434**	**-**	**34,221**
Shareholders' equity	**1,177,414**	**(41,179)**	**6,506**	**-**	**1,142,741**
Tier 1 perpetual bond	**300,000**	**-**	**-**	**-**	**300,000**
Liabilities and shareholders' equity	**9,538,374**	**651,067**	**54,756**	**355,977**	**10,600,174**
Contingent liabilities	**787,483**	**43,146**	**-**	**94,690**	**925,319**

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2020 is as follows:

	Sultanate of Oman RO'000	***UAE RO'000***	***Egypt RO'000***	***Others RO'000***	***Total RO'000***
Cash and balances with Central Banks	181,747	10,257	453	-	192,457
Due from Banks and other money market placements (net)	19,475	8,827	743	65,671	94,716
Loans, advances and islamic financing assets (net)	2,839,221	45,664	-	2,977	2,887,862
Financial investments	318,846	12,866	-	10,491	342,203
Property and equipment	61,160	1,286	122	-	62,568
Other assets	50,158	2,491	196	-	52,845
Total assets	3,470,607	81,391	1,514	79,139	3,632,651
Due to Banks and other money market deposits	5,750	101,907	12,320	168,746	288,723
Customers' deposits and unrestricted investment accounts	2,471,403	55,246	530	-	2,527,179
Euro medium term notes	192,500	-	-	-	192,500
Other liabilities	88,088	(3,830)	190	-	84,448
Taxation	9,382	19	167	-	9,568
Shareholders' equity	429,332	(16,306)	1,707	-	414,733
Tier 1 perpetual bond	115,500	-	-	-	115,500
Liabilities and shareholders' equity	3,311,955	137,036	14,914	168,746	3,632,651
Contingent liabilities	266,076	18,375	-	36,456	320,907

33 CONCENTRATIONS (CONTINUED)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2020 is as follows:

	Sultanate of Oman USD'000	*UAE USD'000*	*Egypt USD'000*	*Others USD'000*	*Total USD'000*
Cash and balances with Central Banks	472,069	26,642	1,177	-	499,888
Due from Banks and other money market placements (net)	50,585	22,927	1,930	170,574	246,016
Loans, advances and islamic financing assets (net)	7,374,600	118,608	-	7,732	7,500,940
Financial investments	828,172	33,418	-	27,249	888,839
Property and equipment	158,857	3,340	317	-	162,514
Other assets	130,281	6,470	509	-	137,260
Total assets	9,014,564	211,405	3,933	205,555	9,435,457
Due to Banks and other money market deposits	14,935	264,694	32,000	438,301	749,930
Customers' deposits and unrestricted investment accounts	6,419,228	143,496	1,377	-	6,564,101
Euro medium term notes	500,000	-	-	-	500,000
Other liabilities	228,799	(9,948)	494	-	219,345
Taxation	24,369	49	434	-	24,852
Shareholders' equity	1,115,148	(42,353)	4,434	-	1,077,229
Tier 1 perpetual bond	300,000	-	-	-	300,000
Liabilities and shareholders' equity	8,602,479	355,938	38,739	438,301	9,435,457
Contingent liabilities	691,107	47,728	-	94,690	833,525

34 SEGMENTAL INFORMATION

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

- Retail Banking offers various products and facilities to individual retail and high net-worth customers to meet everyday banking needs. This includes asset products like personal loans, housing loan, credit cards and term loans and liability products like savings account, current account and term deposits.
- Wholesale Banking delivers a variety of products and services to Corporate, Government and Financial Institutions, that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes investment Banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- International operations include UAE and Egypt operations.
- Islamic Banking offers various products as per Shari'a principles.
- Funding Center – The Funding center is responsible for balancing and managing the liquidity of funds within the Bank. It acts as repository of funds by allocating funds transfer pricing to various business units for performance management purposes. The department also handles the Bank's investments in securities, asset/liability management and cash instruments.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the support functions are allocated to operating segments for performance measurement purposes.

Segment information by business line is as follows:

Year ended 31 December 2021	**Retail Banking**	**Wholesale Banking**	**International Banking**	**Islamic Banking**	**Funding center**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Net Interest income and net Income from Islamic financing and Investment activities	**45,043**	**58,683**	**2,155**	**4,554**	**(18,853)**	**91,582**
Other income	**12,786**	**17,089**	**1,511**	**383**	**-**	**31,769**
Operating income	**57,829**	**75,772**	**3,666**	**4,937**	**(18,853)**	**123,351**
Operating expenditure	**(37,517)**	**(18,086)**	**(4,238)**	**(3,649)**	**(8)**	**(63,498)**
Operating profit/(loss)	**20,312**	**57,686**	**(572)**	**1,288**	**(18,861)**	**59,853**
Loan impairment (losses)/reversal	**(100)**	**(23,541)**	**174**	**(618)**	**100**	**(23,985)**
Net profit/(loss) before tax	**20,212**	**34,145**	**(398)**	**670**	**(18,761)**	**35,868**
Taxation	**(3,072)**	**(5,189)**	**(181)**	**-**	**2,851**	**(5,591)**
Net profit/(loss) after tax	**17,140**	**28,956**	**(579)**	**670**	**(15,910)**	**30,277**
Total assets	**1,336,673**	**1,882,285**	**169,106**	**197,872**	**495,131**	**4,081,067**
Total liabilities and equity	**953,340**	**1,729,241**	**169,106**	**197,872**	**1,031,508**	**4,081,067**

34 SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2021	Retail Banking	Wholesale Banking	International Banking	Islamic Banking	Funding center	Total
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*	USD'000
Net Interest income and net Income from Islamic financing and Investment activities	116,995	152,423	5,597	11,829	(48,968)	237,876
Other income	33,210	44,387	3,925	995	-	82,517
Operating income	150,205	196,810	9,522	12,823	(48,968)	320,393
Operating expenditure	(97,447)	(46,977)	(11,008)	(9,478)	(20)	(164,929)
Operating profit/(loss)	52,758	149,834	(1,486)	3,345	(48,988)	155,464
Loan impairment (losses)/reversal	(260)	(61,145)	452	(1,605)	260	(62,299)
Net profit/(loss) before tax	52,499	88,688	(1,034)	1,740	(48,728)	93,165
Taxation	(7,979)	(13,478)	(470)	-	7,405	(14,522)
Net profit/(loss) after tax	44,519	75,210	(1,504)	1,740	(41,323)	78,643
Total assets	3,471,878	4,889,052	439,236	513,953	1,286,055	10,600,174
Total liabilities and equity	2,476,208	4,491,535	439,236	513,953	2,679,242	10,600,174

Disaggregated revenues 2021

IFRS15 reqiures the disclosure of disaggregated revenue from contracts with customers for major products / service lines. The below table provides disaggregation of commission and fee income (net) and other operating income into revenues within Group's reportable segments. Contract revenue is further segregated based on the products and services:

2021	Retail	Wholesale	International	Islamic	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Transactional	9,891	4,688	1,019	163	15,761
Trade Income	40	2,884	188	48	3,161
Account Services	2,243	1,375	108	63	3,790
Underwriting & Syndication	611	4,556	195	109	5,472
Investment banking	0	3,585	0	0	3,585
Total	12,786	17,089	1,511	383	31,769

2021	Retail	Wholesale	International	Islamic	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Transactional	25,690	12,177	2,648	422	40,938
Trade Income	105	7,492	488	125	8,210
Account Services	5,827	3,572	280	164	9,843
Underwriting & Syndication	1,588	11,834	507	283	14,213
Investment banking	0	9,313	0	0	9,313
Total	33,210	44,387	3,924	995	82,516

34 SEGMENTAL INFORMATION (CONTINUED)

For management purposes the Bank also reports the segment information of its operations by the following geographical locations:

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

Transactions between the above segments are conducted at estimated market rates.

Segment information by geography is as follows:

For the year ended 31 December 2021	***Oman*** ***RO'000***	***UAE*** ***RO'000***	***Egypt*** ***RO'000***	***Total*** ***RO'000***
Net Interest income and Income from Islamic financing and Investment activities	**89,427**	**2,149**	**6**	**91,582**
Other operating income	**30,258**	**778**	**733**	**31,769**
Operating income	**119,685**	**2,927**	**739**	**123,351**
Operating expenses (refer note below)	**(60,959)**	**(2,598)**	**59**	**(63,498)**
Operating profit	**58,726**	**329**	**798**	**59,853**
Total impairment losses (net) and taxation	**(29,569)**	**(7)**	**-**	**(29,576)**
Segment profit for the year	**29,157**	**322**	**798**	**30,277**
Other information				
Segment assets	**3,911,961**	**146,803**	**22,303**	**4,081,067**
Segment capital expenses	**2,261**	**12**	**-**	**2,273**

Note : Operating expenses does not include cost allocation.

34 SEGMENTAL INFORMATION (CONTINUED)

Segment information by geography is as follows:

For the year ended 31 December 2021	***Oman*** ***USD'000***	***UAE*** ***USD'000***	***Egypt*** ***USD'000***	***Total*** ***USD'000***
Net Interest income and Income from Islamic financing and Investment activities	**232,275**	**5,582**	**16**	**237,873**
Other operating income	**78,594**	**2,021**	**1,904**	**82,519**
Operating income	**310,869**	**7,603**	**1,920**	**320,392**
Operating expenses	**(158,335)**	**(6,748)**	**153**	**(164,930)**
Operating profit	**152,534**	**855**	**2,073**	**155,462**
Total impairment losses (net) and taxation	**(76,802)**	**(17)**	**-**	**(76,819)**
Segment profit for the year	**75,732**	**838**	**2,073**	**78,643**
Other information				
Segment assets	**10,160,938**	**381,306**	**57,930**	**10,600,174**
Segment capital expenses	**5,879**	**32**	**-**	**5,911**

Segment information by business line is as follows:

Year-ended 31 December 2020	**Retail Banking RO'000**	**Wholesale Banking RO'000**	**International Banking RO'000**	**Islamic Banking RO'000**	**Funding center RO'000**	**Total RO'000**
Net Interest income and net Income from Islamic financing and Investment activities	46,924	49,783	2,034	4,010	(11,847)	90,904
Other income	10,722	14,145	793	399	-	26,059
Operating income	57,646	63,928	2,827	4,409	(11,847)	116,963
Operating expenditure	(37,962)	(17,189)	(5,079)	(3,544)	(52)	(63,826)
Operating profit/(loss)	19,684	46,739	(2,252)	865	(11,899)	53,137
Loan impairment (losses)/reversal	(4,974)	(24,430)	(396)	(1,622)	93	(31,329)
Net profit/(loss) before tax	14,710	22,309	(2,648)	(757)	(11,806)	21,808
Taxation	(1,516)	(2,300)	(1,061)	-	1,217	(3,660)
Net profit/(loss) after tax	13,194	20,009	(3,709)	(757)	(10,589)	18,148
Total assets	1,318,801	1,680,878	105,684	194,596	332,692	3,632,651
Total liabilities and equity	986,360	1,344,835	105,684	194,596	1,001,176	3,632,651

34 SEGMENTAL INFORMATION (CONTINUED)

Segment information by business line is as follows:

Year ended 31 December 2020	**Retail Banking USD'000**	**Wholesale Banking *USD'000***	**International Banking *USD'000***	**Islamic Banking *USD'000***	**Funding center *USD'000***	**Total USD'000**
Net Interest income and net Income from Islamic financing and Investment activities	121,880	129,306	5,283	10,416	(30,770)	236,115
Other income	27,850	36,740	2,060	1,036	-	67,686
Operating income	149,730	166,046	7,343	11,452	(30,770)	303,801
Operating expenditure	(98,603)	(44,647)	(13,192)	(9,205)	(135)	(165,782)
Operating profit/(loss)	51,127	121,399	(5,849)	2,247	(30,905)	138,019
Loan impairment (losses)/reversal	(12,919)	(63,455)	(1,029)	(4,213)	242	(81,374)
Net profit/(loss) before tax	38,208	57,944	(6,878)	(1,966)	(30,663)	56,645
Taxation	(3,938)	(5,973)	(2,756)	-	3,161	(9,506)
Net profit/(loss) after tax	34,270	51,971	(9,634)	(1,966)	(27,502)	47,139
Total assets	3,425,457	4,365,917	274,504	505,444	864,135	9,435,457
Total liabilities and equity	2,561,974	3,493,078	274,504	505,444	2,600,457	9,435,457

Disaggregated revenues 2020

IFRS15 reqiures the disclosure of disaggregated revenue from contracts with customers for major products / service lines. The below table provides disaggregation of commission and fee income (net) and other operating income into revenues within Group's reportable segments. Contract revenue is further segregated based on the products and services:

2020	**Retail RO'000**	**Wholesale RO'000**	**International RO'000**	**Islamic RO'000**	**Total RO'000**
Transactional	7,920	5,054	243	257	13,475
Trade Income	35	2,993	190	11	3,230
Account Services	2,388	1,193	121	53	3,755
Underwriting & Syndication	375	2,120	239	77	2,810
Investment banking	3	2,785	0	0	2,788
Total	10,722	14,145	793	399	26,059

2020	**Retail USD'000**	**Wholesale USD'000**	**International USD'000**	**Islamic USD'000**	**Total USD'000**
Transactional	20,572	13,127	632	668	35,000
Trade Income	92	7,774	495	30	8,391
Account Services	6,203	3,099	313	138	9,753
Underwriting & Syndication	974	5,506	620	200	7,300
Investment banking	8	7,234	0	0	7,242
Total	27,850	36,740	2,059	1,036	67,685

34 SEGMENTAL INFORMATION (CONTINUED)

Segment information by geography is as follows:

For the year ended 31 December 2020	*Oman RO'000*	*UAE RO'000*	*Egypt RO'000*	*Total RO'000*
Net Interest income and Income from Islamic financing and Investment activities	88,871	1,926	107	90,904
Other operating income	25,266	786	7	26,059
Operating income	114,137	2,712	114	116,963
Operating expenses	(60,392)	(3,059)	(375)	(63,826)
Operating profit	53,745	(347)	(261)	53,137
Total impairment losses (net) and taxation	(33,643)	(1,101)	(245)	(34,989)
Segment profit for the year	20,102	(1,448)	(506)	18,148
Other information				
Segment assets	3,526,967	84,370	21,314	3,632,651
Segment capital expenses	2,267	60	-	2,327

For the year ended 31 December 2020	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Net Interest income and Income from Islamic financing and Investment activities	230,834	5,003	278	236,115
Other operating income	65,626	2,042	18	67,686
Operating income	296,460	7,045	296	303,801
Operating expenses	(156,863)	(7,945)	(974)	(165,782)
Operating profit	139,597	(900)	(678)	138,019
Total impairment losses (net) and taxation	(87,384)	(2,860)	(636)	(90,880)
Segment profit for the year	52,213	(3,760)	(1,314)	47,139
Other information				
Segment assets	9,160,953	219,143	55,361	9,435,457
Segment capital expenses	5,889	155	-	6,044

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2021 and 31 December 2020 are considered by the Management not to be materially different to their book values.

Estimation of fair values

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

1. Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

2. 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, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

3. Current account balances due to and due from Banks

The carrying amount of current account balances due to and from Banks was considered to be a reasonable estimate of fair value due to their short term nature.

4. Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

5. Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

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

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Total	***Level 2***	***Level 1***		***Level 1***	***Level 2***	***Total***
USD'000	***USD'000***	***USD'000***	***31 December 2021***	***RO'000***	***RO'000***	***RO'000***
			Investment measured at FVTPL			
2,527	**-**	**2,527**	Quoted equities	**973**	**-**	**973**
6,724	**6,724**	**-**	Unquoted equities	**-**	**2,589**	**2,589**
9,251	**6,724**	**2,527**	**Total**	**973**	**2,589**	**3,562**
			Investment measured at FVOCI			
93,293	**-**	**93,293**	Quoted equities	**35,918**	**-**	**35,918**
10,489	**-**	**10,489**	Quoted debt	**4,038**	**-**	**4,038**
58	**58**	**-**	Unquoted equities	**-**	**22**	**22**
103,840	**58**	**103,782**	**Total**	**39,956**	**22**	**39,978**
113,091	**6,782**	**106,309**	**Total financial assets**	**40,929**	**2,611**	**43,540**

Total	*Level 2*	*Level 1*		*Level 1*	*Level 2*	*Total*
USD'000	*USD'000*	*USD'000*	*31 December 2020*	*RO'000*	*RO'000*	*RO'000*
			Investment measured at FVTPL			
2,266	-	2,266	Quoted equities	872	-	872
6,968	6,968	-	Unquoted equities	-	2,683	2,683
9,234	6,968	2,266	Total	872	2,683	3,555
			Investment measured at FVOCI			
85,048	-	85,048	Quoted equities	32,744	-	32,744
10,175	-	10,175	Quoted debt	3,917	-	3,917
842	842	-	Unquoted equities	-	324	324
96,065	842	95,223	Total	36,661	324	36,985
105,299	7,810	97,489	Total financial assets	37,533	3,007	40,540

The Bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities
Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 36). There are no transfers between levels of fair value measurement hierarchy during the years ended 31 December 2021 and 2020.

36 DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions with customers and for own account for hedging purpose that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The Bank uses the following derivative financial instruments:

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The Bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure.

The Bank has entered into an interest rate swap, which is designated as a fair value hedge, for hedging the interest rate risk on Euro medium term notes. The cumulative change in the fair value of the Euro medium term notes (hedged item) attributable to the risk hedged was recorded as part of the carrying value of the Euro medium term notes and accordingly presented in statement of financial position. During the current year, the hedge has been terminated.

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

36 DERIVATIVES (CONTINUED)

31 December 2021				***Notional amounts by term to maturity***		
	Positive fair value RO'000 (note 9)	***Negative fair value RO'000 (note 13)***	***Notional amount RO'000***	***Within 3 months RO'000***	***3 - 12 months RO'000***	***More than 1 year RO'000***
Interest rate swaps	**2,049**	**(2,049)**	**462,212**	**7,829**	**22,550**	**431,833**
Forward foreign exchange purchase contracts	**8**	**(16)**	**254,848**	**54,015**	**200,833**	**-**
Forward foreign exchange sales contracts	**1,034**	**(10)**	**254,848**	**54,001**	**199,840**	**1,007**
Total	**3,091**	**(2,075)**	**971,908**	**115,845**	**423,223**	**432,840**
Total – USD'000	**8,029**	**(5,390)**	**2,524,436**	**300,896**	**1,099,281**	**1,124,260**

31 December 2020				*Notional amounts by term to maturity*		
	Positive fair value RO'000 (note 9)	*Negative fair value RO'000 (note 13)*	*Notional amount RO'000*	*Within 3 months RO'000*	*3 - 12 months RO'000*	*More than 1 year RO'000*
Interest rate swaps	3,871	(3,871)	178,163	13,082	39,389	125,692
Forward foreign exchange purchase contracts	85	-	89,882	50,874	36,390	2,618
Forward foreign exchange sales contracts	569	(8)	89,882	50,604	36,043	3,235
Total	4,525	(3,879)	357,927	114,560	111,822	131,545
Total – USD'000	11,753	(10,075)	929,680	297,558	290,447	341,675

37 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2020 have been reclassified in order to conform with the presentation for the current year.

The Bank's investment in treasury bills and certificate of deposits were previously presented as cash and balances with central banks. However, management considers it to be more relevant if it is presented along with financial investments in the balance sheet. Prior year comparatives as at 31 December 2020 have been restated by reclassifying RO 23.67 million from cash and balances with central banks to financial investments.

MUZN ISLAMIC BANKING – WINDOW OF NATIONAL BANK OF OMAN SAOG

Financial statements

31 December 2021

Registered office and principal place of business:

P O Box 751
Postal Code 112
Muscat
Sultanate of Oman

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STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	***2021 RO'000***	*2020 RO'000* (Restated)
ASSETS			
Cash and balances with Central Bank of Oman	5	**15,056**	18,496
Due from banks and financial institutions	6	**1,333**	5,232
Debt type investments classified at amortised cost	7	**17,911**	17,899
Deferred sales under Murabaha	8	**3,893**	2,823
Ijarah Muntahia Bittamleek - net	9	**63,479**	71,659
Diminishing Musharaka	10	**89,339**	74,414
Forward Ijarah	11	**719**	-
Service Ijarah	12	**15**	22
Property and equipment - net	13	**334**	530
Other assets	14	**2,318**	1,578
TOTAL ASSETS		**194,397**	192,653
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Current accounts		**10,570**	10,087
Due to banks and financial institutions	15	**27**	48
Other liabilities	16	**11,675**	5,015
TOTAL LIABILITIES		**22,272**	15,150
Equity of unrestricted investment accountholders	19	**148,173**	155,858
OWNERS' EQUITY			
Assigned capital	20	**20,000**	20,000
Impairment reserve		**605**	605
Retained earnings		**3,347**	1,040
TOTAL OWNERS' EQUITY		**23,952**	21,645
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**194,397**	192,653

The financial statements were approved by the Board of Directors on 26 January 2022.

…………………………………… ……………………………………

Chairperson Chief Executive Officer

The notes 1 to 31 form part of these financial statements.

STATEMENT OF INCOME

For the year ended 31 December 2021

	Notes	***2021***	*2020*
		RO '000	*RO '000* (Restated)
INCOME			
Deferred sales under Murabaha	21	**182**	127
Ijarah Muntahia Bittamleek	22	**3,753**	4,250
Diminishing Musharaka	23	**4,804**	4,020
Inter-bank Wakala		**9**	84
Investment income		**989**	693
Income from jointly financed assets		**9,737**	9,174
Less:			
Return on unrestricted investment accountholders	24	**(5,174)**	(4,925)
Profit equalisation reserve		**(86)**	(81)
Investment risk reserve		**(38)**	(35)
		(5,298)	(5,041)
MUZN'S SHARE IN INCOME FROM INVESTMENT AS MUDARIB AND RABUL MAAL		**4,439**	4,133
Revenue from banking services		**281**	283
Foreign exchange gains – net		**102**	117
TOTAL OPERATING REVENUE		**4,822**	4,533
General and administrative expenses	25	**(1,725)**	(1,645)
Provisions for credit loss	17,18	**(518)**	(768)
Recoveries and release from provisions of credit loss	17,18	**-**	23
Depreciation	13	**(272)**	(279)
TOTAL OPERATING EXPENSES		**(2,515)**	(2,669)
PROFIT FOR THE YEAR		**2,307**	1,864

The notes 1 to 31 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital RO'000	*Impairment reserve RO'000*	*Retained Earnings RO'000*	*Total RO'000*
Balance at 1 January 2021	**20,000**	**605**	**1,040**	**21,645**
Net profit for the year	**-**	**-**	**2,307**	**2,307**
Balance at 31 December 2021	**20,000**	**605**	**3,347**	**23,952**
Balance at 1 January 2020	20,000	558	(777)	19,781
Net profit for the year	-	-	1,864	1,864
Transfer to impairment reserve	-	47	(47)	-
Balance at 31 December 2020	20,000	605	1,040	21,645

The notes 1 to 31 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021	2020
	RO '000	RO '000
		(Restated)
OPERATING ACTIVITIES		
Net profit for the year	**2,307**	1,864
Adjustments for:		
Depreciation	**272**	279
Provisions for credit loss	**518**	768
Recoveries and release from provisions of credit loss	**0**	(23)
Profit equalisation reserve	**86**	81
Investment risk reserve	**38**	35
Operating cash flows before changes in operating assets and liabilities	**3,221**	3,004
Changes in operating assets and liabilities:		
Deferred sales under Murabaha	**(1,104)**	(608)
Ijarah Muntahia Bittamleek assets	**8,431**	6,585
Diminishing Musharaka assets	**(15,650)**	(19,287)
Forward Ijarah assets	**(722)**	4,094
Service Ijarah assets	**7**	4
Other assets	**(740)**	(1,088)
Customers' current accounts	**483**	2,730
Other liabilities	**6,660**	1,015
Net cash flows generated from /(used in) operating activities	**586**	(3,550)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(75)**	(481)
Investment in financial assets at amortised cost	**(20)**	(5,941)
Net cash used in investing activities	**(95)**	(6,422)
FINANCING ACTIVITIES		
Movement in unrestricted investment accountholders	**(15,910)**	22,462
Net cash (used in) / from financing activities	**(15,910)**	22,462
(Decrease) / Increase in cash and cash equivalents	**(15,419)**	12,489
Cash and cash equivalents at the beginning of the year	**17,900**	5,411
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**2,481**	17,900
REPRESENTING:		
Cash and balances with Central Banks	**15,056**	18,496
Due from banks and financial institutions	**1,333**	5,232
Inter bank Wakala	**(13,881)**	(5,780)
Due to banks and financial institutions	**(27)**	(48)
	2,481	17,900

The notes 1 to 31 form part of these financial statements.

STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2021

	2021	*2020*
	RO	*RO*
Balance as at 1 January	**-**	-
Non-islamic income for the year	**11,694**	2,493
Total source	**11,694**	2,493
Use of charity fund:		
Oman Society for the hearing impaired	**(2,924)**	-
Association for Welfare of Children Disabilities	**(2,924)**	-
Omani Association for Down syndrome	**(5,846)**	-
Ihsaan Association	-	(1,246)
Omani Bahja Orphan Society	-	(1,247)
Undistributed charity fund	**-**	-

The notes 1 to 31 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Muzn Islamic Banking – Window of National Bank of Oman SAOG ('Muzn') was registered in the Sultanate of Oman as a window of National Bank of Oman SAOG. Muzn's principle place of business is in Muscat, Sultanate of Oman.

Muzn's operations commenced on 17 January 2013 and it currently operates through six branches in the Sultanate under the license issued by the Central Bank of Oman on 15 January 2013.

The principle activities of Muzn are taking demand, saving and deposit accounts, providing Murabaha finance, Ijarah financing, Musharaka financing and other Sharia compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Muzn's activities are regulated by the Central Bank of Oman ('CBO') and supervised by Sharia Supervisory Board ('SSB') comprising of five members.

Muzn's address is PO Box 751 and PC 112, Muscat, Sultanate of Oman.

Muzn employed 54 employees as at 31 December 2021 (2020: 59).

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

Statement of restricted investment accountholders and statement of Qard fund and Zakat are not presented as these are not applicable/relevant to Muzn's operations.

2.2 Basis of measurement

The financial statements are prepared on historical cost basis except for the measurement at fair value of certain instrument(s) carried at fair value.

2.3 Functional and presentation currency

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

2 BASIS OF PREPARATION *(continued)*

2.4 Use of estimates and judgements

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Muzn's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement.

3.2 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman and, amounts due from other banks.

3.3 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Further, this should also be as per the Sharia principles and guidelines.

Income and expenses are presented on a net basis only for permitted transaction.

3.4 Deferred sales under Murabaha

Deferred sales under Murabaha are stated net of deferred profits and provisions for impairment. Muzn considers the promise made in the deferred sales to the purchase orderer as obligatory.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Ijarah Muntahia Bittamleek assets and Forward Ijarah

Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah installments are settled.

Depreciation is calculated using the straight-line method on all Ijarah Muntahia Bittamleek assets, at rates calculated to write off the cost of each asset over its useful life.

Forward Ijarah assets are recognised as assets at cost during the period of construction.

3.6 Diminishing Musharaka

Musharaka contract represents a partnership between Muzn and a customer whereby each party contributes to the capital in equal or varying proportions to develop a new asset or share an existing one, and whereby each of the party becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses.

These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any. In Diminishing Musharaka based transactions, Muzn enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house or land) with its customers and enters into periodic profit payment agreement on Ijara basis for the utilisation of Muzn's Musharaka share by the customer.

Over the tenor, one partner's investment in the partnership declines on account of the other partner's increase in the partnership investment through repayment of the former partner's share.

3.7 Service Ijarah

Deferred Contracts under Service Ijarah are stated net of deferred profits and provisions for impairment. Muzn considers the payments to be made under Deferred Service Ijarah Contracts as obligatory.

3.8 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, by equal installments over their estimated economic useful lives from the date the asset is brought into use, as follows:

Nature of assets	*Useful life in years*
Furniture and fixtures	10
Equipment	5-20
Motor vehicles	4
Leasehold improvements	3-10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. 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. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to income statement when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in income statement as an expense when incurred.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.8 Property and equipment *(continued)*

The Window recognizes a right of use asset and a lease liability at the lease commencement date. The right -of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right -of -use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as property and equipment.

In addition, the right of use of asset is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

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 Window's incremental borrowing rate. Generally, the Window uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective profit rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Window's estimate of the amount to be expected to be payable under a residual value guarantee , or if the Window changes it assessment of whether the it will exercise a purchase, extension or termination option.

When a lease liability is measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

3.9 Unrestricted investment accountholders

Equity of investment accountholders ("IAH") are funds held by the Window in one common pool of unrestricted investment account, which is invested by the Window ('Mudarib') in its own discretion. These include funds raised under Mudaraba contracts and Wakala contracts under multi-level investment arrangements. The funds received under the Wakala arrangement is invested in the Mudaraba investment pool and is considered as investment made by an investment account holder.

Under both the Mudaraba and a comingled Wakala arrangement, the investment accountholder authorizes the Window to invest the accountholder's funds in a manner which the Window deems appropriate without laying down any restrictions as to the purpose the funds should be invested.

The Window charges management fee (Mudarib fees) to investment accountholders. The allocation of income is determined by the management of the Window at a pre-agreed ratio with IAH. Administrative expenses incurred in connection with the management of the fund are borne directly by the Window and are not charged to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

The basis applied by the Window in arriving at the equity of investment accountholder's share of income is total investment income less shareholders' income. Incase of Wakala contracts, the Bank does not acts as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.10 Investments

Equity-type instruments at fair value through profit and loss

Investments at fair value through statement of income include investments held for trading and investments designated upon initial recognition as investments at fair value through statement of income.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.These investments are subsequently measured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the statement of income.

Equity-type instruments at fair value through equity

This includes all equity-type instruments that are designated as fair value through equity upon initial recognition. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in statement of income.

Debt-type instruments at fair value through statement of income

These include debt-type investments held for trading purposes and those investments that are designated under this category on initial recognition. Subsequent to acquisition, investments designated at fair value through statement of income are re-measured at fair value with recognized gains or losses recognized in statement of income.

Debt-type instruments at amortised cost

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the statement of income, when the investment is de-recognised or impaired.

3.11 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the Mudarib share, in order to cater against future losses for unrestricted investment account holders.

3.12 Profit equalisation reserve

Muzn appropriates a certain amount in excess of the profit to be distributed to unrestricted investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for unrestricted investment account holders.

3.13 Provisions

Provisions are recognised when Muzn has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be measured reliably.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.14 Dividends

Dividends are recognised as a liability in the year in which they are declared.

3.15 Earnings prohibited by shari'a

Muzn is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where Muzn disburses these funds according to the Sharia Supervisory Board's supervision and instructions.

3.16 Zakah

The responsibility of payment of zakah is on individual shareholders and investment account holders.

3.17 Joint and self-financed

Financing and receivables that are jointly owned by Muzn and the unrestricted investment accounts holders will be classified under the caption "jointly-financed" in the financial statements. Financing and receivables that are financed solely by Muzn will be classified under "self-financed".

3.18 Funds for Muzn

Muzn functions with funds specifically available for its Islamic banking activities and there is no commingling of funds with conventional banking business.

3.19 Revenue recognition

3.19.1 Deferred sales under Murabaha

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually determinable, it will be recognized when realised. Income related to non performing accounts will be excluded from the income statement.

3.19.2 Diminishing Musharaka

Income from Musharaka is recognised when the right to receive payment is established or when distribution is made.

3.19.3 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek will be recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non performing Ijarah Muntahia Bittamleek assets will be excluded from the statement of income.

3.19.4 Service Ijarah

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually determinable, it will be recognized when realised. Income related to non performing accounts will be excluded from the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19.5 Dividends

Dividends will be recognised when the right to receive payment is established.

3.19.6 Fee and Commission Income

Fee and commission income will be recognised when earned.

3.19.7 Muzn's Share as a Mudarib

Muzn's share as a Mudarib for managing unrestricted investment accounts will be accrued based on the terms and conditions of the related Mudaraba agreements.

3.19.8 Income allocation

Income from jointly financed activities will be allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year.

3.20 Taxation

Muzn is not a separate legal entity and therefore is not taxable on a stand-alone basis as per the prevailing tax laws.

National Bank of Oman SAOG is taxable on a consolidated basis i.e including Muzn's financial results, accounted for as per the International Financial Reporting Standards. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

3.21 Employee benefits

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

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

3.22 Segment reporting

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.23 Sharia supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Sharia Supervisory Board of Muzn, which meets four times a year and consists of three prominent Sharia scholars as voting members and two non-voting members who are expert in the field. The SSB members appointed for a period of three years are:

- Sh. Dr. Mohamed Bin Ali Elgari - Chairman
- Dr. Mohammed Daud Bakar - Member
- H.H. Sh. Dr. Adham Al Said - Member
- Sh. Saleh Al Kharusi – Member

3.24 Financial Instruments

3.24.1 From 1 January 2021

a) Classification of financial instruments

Financial assets consist of balances with Central Bank of Oman, due from banks and financial instititutions, debt type investments classified at amortised cost, deferred sales under Murabaha, Ijarah Muntahia Bittamleek, Diminishing Musharaka, Forward Ijarah, Service Ijarah and other receivables.

Financial liabilities contracts consist of placement from financial institutions, placements from customers, customers' current accounts and other payables.

All financial assets and financial liabilities are carried at amortised cost.

b) Measurement of financial Instruments

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus the capital repayments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability. The calculation of the effective profit rate includes all fees paid or received that are an integral part of the effective profit rate.

c) Trade and settlement date accounting

The Window recognises financing, investments, deposits and equity of investment accountholders on the date on which they are originated. Purchases and sale of all other financial assets and liabilities are recognised on the trade date, i.e. the date that the Window contracts to purchase or sell the asset or liability.

d) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Window has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Window could be required to pay.

Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24.1 Financial Instruments (continued)

e) Impairment

Overview of the ECL principles

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

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

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

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

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

Stage 1: Twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the LTECL associated with the probability of default events occurring within next twelve months is recognised.

Stage 2: LTECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, LTCEL is recognised. LTECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Window and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: LTECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract.

The calculation of ECLs

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

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

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24.1 Financial Instruments (continued)

e) Impairment (continued)

The calculation of ECLs (continued)

- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
- 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 window would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The Window has applied a LGD of 0% on Government Sukuk issued by Government of Oman which are classified as investments under amortised cost.

Credit-impaired financial assets

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

a) significant financial difficulty of the borrower or issuer;
b) a breach of contract such as a default or past due event;
c) the restructuring of a financing or advance by the Window on the terms that the Window would not consider otherwise;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
e) the disappearance of an active market for a security because of financial difficulties.

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

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

a) The market's assessment of creditworthiness as reflected in the Sukuk yields.
b) The rating agencies' assessments of creditworthiness.
c) The country's ability to access the capital markets for new debt issuance.
d) The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
e) The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24.1 Financial Instruments (continued)

e) Impairment (continued)

The calculation of ECLs (continued)

Write-offs

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

Presentation of allowance for credit losses in the statement of financial position

Allowance for credit losses are presented in the statement of financial position as follows:
financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
financing commitments and financial guarantee contracts: generally as a provision under other liabilities; and where a financial contract includes both a drawn and undrawn component, and the Window has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, the Window presents allowance for credit losses for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Allowance for credit losses for the undrawn component is presented as a provision in other liabilities.

Calculation of expected credit loss (ECL)

Inputs, assumptions and techniques used for ECL calculation

Key concepts in FAS 30 that have the most significant impact and require a high level of judgment, as considered by the Window while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24.1 Financial Instruments (continued)

e) Impairment (continued)
The calculation of ECLs (continued)
Assessment of Significant Increase in Credit Risk (continued)

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

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

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

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

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

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

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

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

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

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. FAS 30 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. The Window considers any exposure greater than 90 days past due as a default account.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24.1 Financial Instruments (continued)

e) Impairment (continued)

Expected life

When measuring ECL, the Window must consider the maximum contractual period over which the Window is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Window is exposed to credit risk and where the credit losses would not be mitigated by management actions.

3.24.2 Upto 31 December 2020

a) Classification of financial assets

The Window has applied IFRS 9 and classifies its financial assets in the following measurement categories:

a) Fair value through equity (FVTE) which is IFRS 9: FVOCI; or
b) Amortised cost.
c) Fair value through profit or loss (FVTPL);

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

a) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit.

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24.2 Financial Instruments (continued)

b) Business model assessment

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

a) The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profits, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
b) how the performance of the portfolio is evaluated and reported to the Window's management;
c) the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
d) how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

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

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

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

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

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

a) contingent events that would change the amount and timing of cash flows;
b) leverage features;
c) prepayment and extension terms;
d) terms that limit the Window's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
e) features that modify the profit rates based on the given circumstances.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24.2 Financial Instruments (continued)

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

The 'investments' caption in the statement of financial position includes:

a) debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method;
b) debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
c) debt securities measured at FVTE; and
d) equity investment securities designated as at FVTE.

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

a) Profits from the financial assets
b) ECL and reversals; and
c) Foreign exchange gains and losses.

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

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

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in fair value reserve. Cumulative gains and losses recognised in fair value reserve are transferred to retained earnings on disposal of an investment.

d) Reclassifications

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

e) Impairment

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

a) financial assets that are debt instruments;
b) financial guarantee contracts issued; and
c) financing commitments issued.

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

a) debt investment securities that are determined to have low credit risk at the reporting date; and
b) other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24.2 Financial Instruments *(continued)*

e) Impairment (continued)

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

a) significant financial difficulty of the borrower or issuer;
b) a breach of contract such as a default or past due event;
c) the restructuring of a financing or advance by the Window on the terms that the Window would not consider otherwise;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
e) the disappearance of an active market for a security because of financial difficulties.

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

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

a) The market's assessment of creditworthiness as reflected in the Sukuk yields.
b) The rating agencies' assessments of creditworthiness.
c) The country's ability to access the capital markets for new debt issuance.
d) The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
e) The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Calculation of expected credit loss (ECL)
Changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2020 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology
Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Window while determining the impact assessment, are:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24.2 Financial Instruments *(continued)*

d) Impairment (continued)
Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology (continued)
Assessment of Significant Increase in Credit Risk(continued)

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

IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios
The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

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

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

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

Definition of default
The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. The Window considers any exposure greater than 90 days past due as a default account.
Expected life
When measuring ECL, the Window must consider the maximum contractual period over which the

Window is exposed to credit risk. All applicable contractual terms are considered when determining the

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24.2 Financial Instruments *(continued)*

3.24.5 Impairment (continued)

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

expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Window is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Window's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Window has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

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

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

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

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

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

Stage 1
When financing are first recognised, the Window 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 Window records an allowance for the LTECLs. Stage 2 financing exposure also include facilities, where the credit risk has improved and the financing exposure has been reclassified from Stage 3.

Stage 3
Financing exposure considered credit-impaired. The Window records an allowance for the LTECLs.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24.2 Financial Instruments *(continued)*

a) Impairment (continued)
Overview of the ECL principles (continued)

Stage 2
Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset

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

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

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

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

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

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.

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 window would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The Window has applied a LGD of 0% on Government Sukuk issued by Government of Oman which are classified as investments under amortised cost.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.25 New standards, amendments and interpretations

3.25.1 New standards, amendments and interpretations effective from 1 January 2021

For the year ended 31 December 2021, the Window has adopted all of the amendments in standards issued by AAOIFI that are relevant to tis operations and effective for the period beginning on 1 January 2021.

FAS 30 Impairment, Credit losses and onerous commitments

In November 2017, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Financial Accounting Standard (FAS) 30 - Impairment, credit losses and onerous commitments. This standard is effective for the financial periods beginning on or after 1 January 2021.

The Window has already implemented IFRS 9 Financial Instruments (IFRS 9) considering the CBO Circular BM 1149 dated 13 April 2017 and accordingly has assessed the impact of adoption of FAS 30. The adoption of FAS 30 has resulted in changes in accounting policies (refer note 3.24), with no impact on the previously reported numbers. The Window has adopted FAS 30, considering the transitional option of retrospective adoption without restating the comparative financial statements and the cumulative charge (or net reversal of the charge) related to previous periods adjusted with the retained earnings as of the beginning of the period of the first application of the standard.

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

The Window has adopted FAS 31 as issued by AAOIFI on 1 January 2021. AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-lstithmar) in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al- Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives.

The Window uses wakala structure to raise funds from interbank market and from customers, and these were reported as due to banks and financial institutions and liabilities under due wakala accounts respectively as of 31 December 2020. All funds raised using wakala structure, together called "wakala pool" are comingled with the Bank's jointly financed pool of funds based on an underlying equivalent mudaraba arrangement. This comingled pool of funds is invested in a common pool of assets of in the manner which the Window deems appropriate without laying down restrictions as to where, how and what purpose the funds should be invested.

After adopting FAS 31 on 1 January 2021, the Wakala pool is now classified as part of the Mudaraba pool of funding under equity of investment accountholders and the profit paid on these contracts is reported as part of determination of return on investment of equity of investment accountholders.

As per the transitional provisions of FAS 31, the entity may choose not to apply this standard on existing transactions executed before 1 January 2021 and have an original contractual maturity before 31 December 2021. However as the comingled pool arrangement has been in existence for all years , the Window has decided to apply the standard retrospectively, thereby reclassifying all transactions outstanding as of the year end and the corresponding previous year end.

The adoption of this standard has resulted in change in classification of all Wakala based funding contracts as part of equity of investment accountholders and additional associated disclosures (refer note 19).

The impact is presented below.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.25 New standards, amendments and interpretations

3.25.1 New standards, amendments and interpretations effective from 1 January 2021

	(restated) 31 December 2020 RO'000	*(previously reported)* 31 December 2020 RO'000
Statement of income (extract)		
Return on Wakala accountholders	-	(4,839)
Return on Inter-bank Wakala Acceptence	-	(53)
Return on unrestricted investment accountholders	(4,925)	(33)
Statement of Financial Position (extract)		
Liabilities		
Wakala accounts	-	142,320
Due to banks and financial institutions	48	5,786
Equity of unrestricted investment accountholders	155,858	7,758
Statement of cashflow (extract)		
Customers' Wakala accounts	-	21,198
Equity of unrestricted investment accountholders	22,462	1,264

FAS 33 Investment in Sukuk, Shares and Similar Instruments

The Window has adopted FAS 33 as issued by AAOIFI on 1 January 2021.

The objective of this standard is to set out the principles for the classification, recognition, measurement and presentation and disclosure of investment in Sukuk, shares and other similar instruments made by Islamic financial institutions (IFIs). This standard shall apply to an institution's investments whether in the form of debt or equity securities. This standard replaces FAS 25 Investment in Sukuk, shares and similar instruments.

The standard classifies investments into equity type, debt-type and other investment instruments. Investment can be classified and measured at amortized cost, fair value through equity or fair value through the income statement.

Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.25 New standards, amendments and interpretations

3.25.1 New standards, amendments and interpretations effective from 1 January 2021

FAS 33 Investment in Sukuk, Shares and Similar Instruments (continued)

Investments in equity instruments must be at fair value and those classified as fair value through equity will be subject to impairment provisions as per FAS 30 "Impairment, Credit Losses and Onerous Commitments". In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

The standard has been adopted effective 1 January 2021 and is applicable on a retrospective basis. However, the cumulative effect, if any, attributable to owners' equity, equity of investment account holders relating to previous years, shall be adjusted with investments fair value pertaining to assets funded by the relevant class of stakeholders.

The Window has already implemented IFRS 9 Financial Instruments (IFRS 9) considering the CBO Circular BM 1149 dated 13 April 2017 and has investments in sukuks classified as financial assets at amortised cost. This will be classified as debt type instruments at amortised cost under FAS 33.

The adoption of FAS 33 has resulted in changes in classification of investments and accounting policies for recognition, classification and measurement of investment in sukuks, shares and other similar instruments with no impact on any amounts previously reported for the year ended 31 December 2020. Refer note 3.10.

FAS 35 Risk Reserves

The standard provides principle-based guidance on maintaining reserves, including the approach for utilising reserves. It also requires IFIs to disclose in financial statements the basis for determining the transfers in and out of reserves, the threshold for specific reserves and the use of the specific reserve. It also provides guidance for assessment and accounting for various risks involved and recognise the need for varying levels of reserves in line with the dynamism of risks across the financial calendar. Finally, it also links the allowances for impairment, credit losses, and onerous commitments against the reserves to be maintained for the participating stakeholders.

The adoption of this standard did not result in changes to the previously reported net profit or equity of the Window.

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

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

FAS 38 Wa'ad, Khiyar and Tahawwut

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

4 Critical accounting judgment and key sources of estimation uncertainty

4.1 Financial Instruments

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements pertain to the following :

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.
- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation.

Inputs, assumptions and techniques used for ECL calculation

The following have the most significant impact and require a high level of judgment, as considered by the window while determining the impact assessment, are:

- Assessment of significant Increase in credit risk
- Macro-economic factors, forward looking information and multiple scenarios
- Definition of default
- Expected life

The Window's ECL calculations are outputs of complex models with number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Window's internal credit grading model
- The Window's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

4.2 Useful life of property and equipment

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

5 Cash and balances with Central bank of Oman ("CBO")

	2021	*2020*
	RO'000	*RO'000*
Cash in hand	**1,031**	1,109
Balances with Central Bank of Oman ("CBO")	**14,025**	17,387
Cash and balances with Central bank of Oman ("CBO")	**15,056**	18,496

All the above exposures are classified as Stage 1as at 31 December 2021(2020 : Stage 1).

:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

6 Due from banks and financial institutions

	Total 2021 RO'000	*Total 2020 RO'000*
Due from foreign banks (note a)	**888**	1,910
Due from local banks (note b)	**-**	3,000
Due from banks and financial institutions	**445**	322
Total	**1,333**	5,232

(a) Due from foreign banks is from a international bank with Aa1 rating with a current maturity, due to which the computed ECL is insignificant amount (2020:Aa1).
(b) Due from local banks is from a local bank with Ba3 rating with current maturity, due to which the computed ECL is insignificant amount (2020:Ba3).

7 Financial assets

7.1 Debt type investments classified at amortised cost

	Total 2021 RO'000	*Total 2020 RO'000*
Government sukuk	**16,438**	16,417
Manufacturing sector sukuk	**963**	963
Banking sector sukuk	**550**	550
Financial assets at amortised cost	**17,951**	17,930
Less: Allowance for credit losses (refer 7.2)	**(40)**	(31)
Total	**17,911**	17,899

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

	2021 RO'000	2020 RO'000
Balance at 1 January	**31**	55
Provided / (released) during the year	**9**	(24)
Balance at 31 Deember	**40**	31

8 Deferred sales under Murabaha

	Total 2021 RO'000	*Total 2020 RO'000*
Gross deferred sales under Murabaha	**4,386**	3,143
Less: Unearned income	**(449)**	(310)
	3,937	2,833
Less: Allowances for credit losses	**(44)**	(10)
Deferred sales under Murabaha	**3,893**	2,823

The deferred sales under Murabaha pertain to finance provided to retail customers. The credit quality of the deferred sales under Murabaha that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

8 Deferred sales under Murabaha *(continued)*

Deferred Profit Movement

	2021 RO'000	*2020 RO'000*
Deferred profit at the beginning of the period	**310**	254
Murabaha sales revenue during the period	**2,599**	1,679
Murabaha cost of sales	**(2,460)**	(1,623)
	449	310
Deferred profit written off during the period	-	-
Deferred profit waived during the period	-	-
Deferred profit at the end of the period	**449**	310

9 Ijarah Muntahia Bittamleek – net

	2021 RO'000	*2020 RO'000*
Cost		
At 1 January	**123,128**	123,724
Additions – net	**(3,012)**	(596)
At 31 December	**120,116**	123,128
Depreciation		
At 1 January	**(50,620)**	(44,709)
Additions – net	**(5,276)**	(5,911)
At 31 December	**(55,896)**	(50,620)
Net book value at 31 December 2020	**64,220**	72,508
Less: Allowances for credit losses	**(741)**	(849)
Ijarah Muntahiah Bittamleek – net	**63,479**	71,659

The Ijarah Muntahia Bittamleek pertains to finance provided to retail and corporate customers. The credit quality of the Ijarah Muntahia Bittamleek that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

10 Diminishing Musharaka

	Total 2021 RO'000	*Total 2020 RO'000*
Diminishing Musharaka receivables	**91,578**	75,928
Less: Allowances for credit losses	**(2,239)**	(1,514)
Total	**89,339**	74,414

Diminishing Musharaka pertains to finance provided to retail and corporate customers. The credit quality of the Diminishing Musharaka that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

11 Forward Ijarah

	Total 2021 RO'000	*Total 2020 RO'000*
Forward Ijarah receivables	**722**	**-**
Less: Allowances for credit losses	**(3)**	**-**
Total	**719**	**-**

Forward Ijarah pertains to finance provided to retail and corporate customers. The credit quality of the Forward Ijarah that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

12 Service Ijarah

	Total 2021 RO'000	*Total 2020 RO'000*
Gross deferred Service Ijarah	**18**	22
Less: Unearned income	**(3)**	**-**
	15	22
Less: Allowances for credit losses	**-**	**-**
Service Ijarah	**15**	22

13 Property and equipment – net

	Motor vehicles, furniture and equipment	***Leasehold improvements***	***RTU Asset***	***Total***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Cost				
1 January 2021	**1,318**	**573**	**330**	**2,221**
Additions	**2**	**-**	**59**	**61**
Disposals	**(3)**	**(9)**	**(29)**	**(41)**
31 December 2021	**1,317**	**564**	**360**	**2,241**
Depreciation				
1 January 2021	**1,084**	**492**	**115**	**1,691**
Charge for the year	**132**	**22**	**118**	**272**
Disposals	**(3)**	**(9)**	**(43)**	**(55)**
31 December 2021	**1,213**	**514**	**190**	**1,907**
Net book value at 31 December 2021	**104**	**50**	**170**	**334**

13 Property and equipment – net *(continued)*

	Motor vehicles, furniture and equipment RO'000	*Leasehold improvements RO'000*	*RTU Asset RO'000*	*Total RO'000*
Cost				
1 January 2020	1,342	473	-	1,815
Additions	40	100	341	481
Disposals	(64)	(0)	(11)	(75)
31 December 2020	1,318	573	330	2,221
Depreciation				
1 January 2020	1,013	474	-	1,487
Charge for the year	135	18	126	279
Disposals	(64)	-	(11)	(75)
31 December 2020	1,084	492	115	1,691
Net book value at 31 December 2020	234	81	215	530

14 Other assets

	2021 RO'000	*2020 RO'000*
Profit receivable	**2,008**	1,336
Miscellaneous assets	**310**	242
	2,318	1,578

15 Due to banks and financial institutions

	2021 RO'000	*2020 RO'000*
Due to Head office	**27**	48
Total	**27**	48

16 Other liabilities

	2021 RO'000	*2020 RO'000*
Sundry creditors	**9,641**	534
Short term payable	**9**	32
Profits payable	**1,903**	2,347
Forward Ijarah advances	**122**	1,786
Deferred profit under Murabaha	**-**	316
	11,675	5,015

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

17 Provisions for credit loss finances and recoveries and release from provions of credit loss finances : 2021

17.1 Portfolio provision

	2021	*2020*
	RO'000	*RO'000*
At 1 January	**2,407**	1,581
Provided during the year	**518**	768
Released during the year	**-**	(23)
Contractual profit reserved	**142**	81
At 31 December	**3,067**	2,407

17 Provisions for credit loss finances and recoveries and release from provisions of credit loss finances : 2021 (continued)

17.2 Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2021.

Asset Classification as per CBO Norms	**Asset Classification as per IFRS 9**	**Gross amount**	**Provision required as per CBO Norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required and provision held**	**Net Amount as per CBO norms**	**Net Amount as per IFRS 9**	**Profit recognised in P&L as per IFRS 9**	**Reserve Profit 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)-(10)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	101,931	1,114	961	163	100,807	100,970	-	10
	Stage 2	43,648	549	431	118	43,099	43,217	-	-
Standard	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**145,579**	**1,663**	**1,392**	**281**	143,906	**144,187**	-	**10**
								-	
	Stage 1	-	-	-	-	-	-	-	-
Special	Stage 2	11,706	-	720	(706)	11,692	10,986	-	14
mention	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**11,706**	-	**720**	**(706)**	11,692	**10,986**	-	**14**
			-					-	
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Substandard	Stage 3	-	-	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-	-	-
			-					-	
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	Stage 3	-	-	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-	-	-
								-	
								-	
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	Stage 3	3,188	1,436	915	908	1,365	2,273	-	387
Subtotal		**3,188**	**1,436**	**915**	**908**	1,365	**2,273**	-	**387**
								-	
Other items not covered	Stage 1	24,536	-	40	(40)	24,536	24,496	-	-
under CBO circular BM	Stage 2	963	-	-	-	963	963	-	-
977 and related instructions	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**25,498**	-	**40**	**(40)**	25,498	**25,458**	-	-
	Stage 1	**126,467**	**1,114**	**1,001**	**123**	**125,343**	**125,466**	-	**10**
	Stage 2	**56,317**	**549**	**1,151**	**(588)**	**55,754**	**55,166**	-	**14**
	Stage 3	**3,188**	**1,436**	**915**	**908**	**1,365**	**2,273**	-	**387**
Total	**Total**	**185,972**	**3,099**	**3,067**	**443**	**182,462**	**182,904**	-	**411**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

17 Provisions for credit loss finances and recoveries and release from provisions of credit loss finances : 2021 (continued)

17.2 Movement in Expected credit losses (ECL) as at 31 December 2021

	Stage 1 RO 000	Stage 2 RO 000	Stage 3 RO 000	Total RO 000
Exposure subject to ECL				
- Financing contracts with customers	101,931	55,354	3,188	160,473
- Debt type investments classified at amortised cost	17,951	-	-	17,951
- Unutilized portion of financing contracts and Financial Guarantees	6,214	-	-	6,214
- Due from banks, Central Bank and Other Financial Assets	1,333	-	-	1,333
	127,429	55,354	3,188	185,971
Opening Balance as at 1 January 2021				
- Financing contracts with customers	698	510	1,168	2,376
- Debt type investments classified at amortised cost	31	-	-	31
- Financing Commitments and Financial Guarantees	-	-	-	-
- Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	729	510	1,168	2,407
Net transfer between stages				
- Financing contracts with customers	**(65)**	**12**	**53**	**-**
- Debt type investments classified at amortised cost	**-**	**-**	**-**	**-**
- Unutilized portion of financing contracts and Financial Guarantees	**-**	**-**	**-**	**-**
- Due from banks, Central Bank and Other Financial Assets	**-**	**-**	**-**	**-**
Charge for the Period (net)				
- Financing contracts with customers (including contractual profit reserved of RO 410 K)	(116)	628	139	651
- Debt type investments classified at amortised cost	9	-	-	9
- Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
- Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	(107)	**628**	**139**	**660**
Closing Balance - as at 31 December 2021				
- Financing contracts with customers	**517**	**1,150**	**1,360**	**3,027**
- Debt type investments classified at amortised cost	**40**	**-**	**-**	**40**
- Unutilized portion of financing contracts and Financial Guarantees	**-**	**-**	**-**	**-**
- Due from banks, Central Bank and Other Financial Assets	**-**	**-**	**-**	**-**
	557	**1,150**	**1,360**	**3,067**

Impairment charge and provisions held as at 31 December 2021

	As per CBO Norms	As per IFRS 9	RO 000 Difference
Impairment loss charged to profit and loss account	(518)	(518)	-
Provisions required as per CBO norms/held as per FAS 30	3,510	3,067	(443)
Gross NPF ratio	2.25	2.25	-
Net NPF ratio	2.00	2.00	-

The related difference (net of tax) between the existing financing loss impairment computed in accordance with the requirements of AAOIFI and CBO guidelines and the impairment allowance computed under FAS 30, has been transferred to a financing loss impairment reserve from accumulated losses.

17 Provisions for credit loss finances and recoveries and release from provisions of credit loss finances : 2020 (continued)

17.3 Comparison of provision held as per IFRS 9 and required as per CBO guidelines as at 31 December 2020

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Reserve Profit 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)-(10)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	111,624	1,187	698	489	110,437	110,926	-	-
	Stage 2	31,401	324	462	(138)	31,077	30,939	-	-
Standard	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**143,025**	**1,512**	**1,160**	**351**	141,514	**141,865**	-	-
									-
	Stage 1	-	-	-	-	-	-	-	-
Special	Stage 2	5,526	55	49	6	5,471	5,477	-	-
mention	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**5,526**	**55**	**49**	**6**	5,471	**5,477**	-	-
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Substandard	Stage 3	-	-	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-	-	-
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	Stage 3	-	-	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-	-	-
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	Stage 3	2,742	1,284	1,167	386	1,189	1,575	-	269
Subtotal		**2,742**	**1,284**	**1,167**	**386**	**1,189**	**1,575**	-	**269**
								-	
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	24,210	-	31	(31)	24,210	24,179	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**24,210**	**-**	**31**	**(31)**	**24,210**	**24,179**	**-**	**-**
								-	-
	Stage 1	**135,834**	**1,187**	**729**	**458**	**134,647**	**135,105**	-	-
	Stage 2	**36,927**	**379**	**511**	**(132)**	**36,548**	**36,416**	-	-
	Stage 3	**2,742**	**1,284**	**1,167**	**386**	**1,189**	**1,575**	-	**269**
Total	**Total**	**175,503**	**2,850**	**2,407**	**712**	**172,384**	**173,096**	-	**269**

17 Provisions for credit loss finances and recoveries and release from provisions of credit loss finances : 2020 (continued)

17.3 Movement in Expected credit losses (ECL) as at 31 December 2020

	Stage 1	Stage 2	Stage 3	Total
	RO 000	RO 000	RO 000	RO 000
Exposure subject to ECL				
- Financing contracts with customers	111,624	36,927	2,742	151,293
- Investment securities at amortised cost	17,930	-	-	17,930
- Unutilized portion of financing contracts and Financial Guarantees	1,048	-	-	1,048
- Due from banks, Central Bank and Other Financial Assets	5,233	-	-	5,233
	135,835	**36,927**	**2,742**	**175,504**
Opening Balance as at 1 January 2020				
- Financing contracts with customers	517	561	683	1,762
- Investment securities at amortised cost	55	-	-	55
- Financing Commitments and Financial Guarantees	-	-	-	-
- Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	572	561	683	1,816
Net transfer between stages				
- Financing contracts with customers	48	(836)	788	-
- Investment securities at amortised cost	-	-	-	-
- Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
- Due from banks, Central Bank and Other Financial Assets	-	-	-	-
Charge for the Period (net)				
- Financing contracts with customers (including contractual profit reserved of RO 269 K)	133	785	(303)	615
- Investment securities at amortised cost	(24)	-	-	(24)
- Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
- Due from banks, Central Bank and Other Financial Assets	0	-	-	0
	109	785	(303)	591
Closing Balance - as at 31 December 2020				
- Financing contracts with customers	698	510	1,168	2,376
- Financial Assets at amortised cost	31	-	-	31
- Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
- Due from banks, Central Bank and Other Financial Assets	0	-	-	0
	729	510	1,168	2,407

Impairment charge and provisions held as at 31 December 2020

			RO 000
	As per CBO Norms	**As per IFRS 9**	**Difference**
Impairment loss charged to profit and loss account	(745)	(745)	-
Provisions required as per CBO norms/held as per IFRS 9	3,119	2,407	(712)
Gross NPF ratio	1.99	1.99	-
Net NPF ratio	1.82	1.82	-

The related difference (net of tax) between the existing financing loss impairment computed in accordance with the requirements of AAOIFI and CBO guidelines and the impairment allowance computed under IFRS 9, has been transferred to a financing loss impairment reserve from accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

18 Equity of unrestricted investment account holders

	2021	*2020*
	RO'000	*RO'000*
Mudaraba savings account	**7,497**	7,113
Wakala from financial institutions	**13,881**	5,780
Wakala from customers	**126,026**	142,320
Profit equalisation reserve	**548**	462
Investment risk reserve	**221**	183
Total unrestricted investment account holders	**148,173**	155,858

There are no restricted investment as at 31 December 2021 (2020: Nil).

The Window utilizes the funds from equity of unrestricted investment account holders to finance assets. Asset in which funds are invested are as below:

	2021	*2020*
	RO'000	*RO'000*
Deferred sale receivable under Murabaha	**3,633**	2,823
Ijara Muntahia Bittamleek	**60,484**	71,659
Diminishing Musharaka	**83,371**	74,414
Due from banks and financial institutions	**-**	6,940
Forward Ijara	**671**	-
Service Ijarah	**14**	22
Total	**148,173**	155,858

Equity of investment accountholders' fund is commingled with Window's and Wakala fund to form one general Mudaraba pool. This pooled fund is used to fund and invest in banking assets generating income, however no priority is granted to any party for the purpose of investments and distribution of profits.

The Window does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only the profits earned on pool of assets funded from IAH and owners' equity are allocated between the owners' equity and IAH.

As per the policy of the Window, minimum of 40 % of return on assets earned is distributed to investment accountholders and 60 % is retained by the Window as Mudarib share. The Window did not charge any administration expenses to investment accounts.

The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year was 3.40% (2020: 3.38%).

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

The investment profits are distributed between owners' equity and unrestricted investment accountholders for the year ended 31 December 2021 and year ended December 2020 as follows:

	2021	2020
	Percentage	Percentage
Unrestricted investment accountholders share	**40%**	40%
Mudarib share	**60%**	60%

The investment risk reserve at 0.5 percent is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract. The profit equalisation reserve at 1 percent is the amount Muzn appropriates in excess of the profit to be distributed to unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner equity and unrestricted investment accountholders.

19 Assigned capital

The assigned capital consists of RO 20,000,000 transferred from National Bank of Oman SAOG (31 December 2020: RO 20,000,000).

20 Deferred sales under Murabaha

	2021 RO'000	*2020 RO'000*
Deferred sales under Murabaha profit	**182**	127

21 Ijarah Muntahia Bittamleek

	2021 RO'000	*2020 RO'000*
Income from Ijarah Muntahia Bittamleek	**10,300**	11,319
Less : Depreciation	**(6,547)**	(7,069)
	3,753	4,250

22 Diminishing Musharaka

	2021 RO'000	*2020 RO'000*
Income from Diminishing Musharaka	**4,804**	4,020

23 Return on unrestricted investment accountholders

	2021 RO'000	*2020 RO'000*
Mudarabha savings account	**35**	33
Wakala	**2,804**	2,095
Flex Wakala	**2,260**	2,744
Inter-bank Wakala	**75**	53
Total	**5,174**	4,925

25 General and administrative expenses

	2021 ***RO'000***	*2020* *RO'000*
Salaries and allowances	**1,265**	1,158
Rent, rates and taxes	**4**	6
Publicity	**23**	7
Management fee to Head Office	**100**	93
Repair and maintenance	**78**	85
Legal and professional fees	**12**	19
Stationery	**5**	26
Directors' fees	**36**	34
Travel expenses	**1**	2
Miscellaneous expenses	**201**	215
	1,725	1,645

26 Related party transactions

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

	2021 ***RO'000***	*2020* *RO'000*
Deposits and other accounts		
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	**13**	537

	2021 ***RO'000***	*2020* *RO'000*
Financing		
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	**-**	58

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

	2021 ***RO'000***	*2020* *RO'000*
Remuneration paid to Sharia Supervisory Board Members		
Chairman		
– remuneration proposed	**8**	8
– sitting fees paid	**2**	2
– other expenses paid	**-**	0
Others		
– remuneration proposed	**15**	15
– sitting fees paid	**11**	9
– other expenses paid	**-**	0
Management fee payable to conventional banking	**100**	93

27 Contingent liabilities and commitments

27.1 Credit related contingent items

The Window is a party to financial instrument with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and others. The Window's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

The risk involved is essentially the same as the credit risk involved in extending financing facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements for customers applying for financing to customers.

The outstanding contract value or the notional amounts of these instruments at 31 December were as follows:

	2021	*2020*
	RO'000	*RO'000*
Letters of credit	**192**	476
Letters of guarantee	**6,022**	572
	6,214	1,048

The contingent liabilities are concentrated to wholesale and retail trade sector only.

27.2 Capital and investment commitments

	2021	*2020*
	RO'000	*RO'000*
Contractual commitments for Forward Ijarah	**48**	233
Contractual commitments for Diminishing Musharaka	**9,113**	19,194
	9,161	19,427

28 Financial risk management

The primary objective of risk management is to safeguard the Muzn's resources from the various risks which Muzn faces. The Risk Group comprises of Corporate Credit Risk, Retail Credit Risk, Market Risk and Operational Risk. All risk management functions report to Chief Risk Officer and are independent from Business Units. Muzn has exposure to credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that Muzn will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations to Muzn. Muzn manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman.

Credit risk management
To manage the level of credit risk, Muzn deals with counter-parties of good credit. Corporate Credit Committee of the Board is the final credit approving authority of Muzn which is mainly responsible for approving all credit proposals beyond the authority level of the management. The Management Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk mitigation policies
Muzn manages, limits and controls concentrations of credit risk − in particular, with respect to individual counterparties and groups, and industries and countries. Muzn structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

To facilitate risk mitigation Moody's, S&P and Fitch ratings have also been set up and are also being used as guidelines to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines.

The analysis of financing portfolio is provided below. It is pertinent to mention that the financing portfolio consists of all standard accounts and there is no impairment in the portfolio.

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

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. The assessment of significant increase in credit risk and the calculation of ECL both incorporate forward-looking information.

(a) Geographical concentrations

All the financial asset and financial liabilities reported in the balance sheet and all the items reported in off balance are based in Sultanate of Oman.

28 Financial risk management (*continued*)

Credit risk (*continued*)

(b) Customer concentrations

On Assets	**Due from Banks and financial institutions**	**Debt type investments classified at amortised cost**	**Deferred sales under Murabaha**	**Ijarah Muntahia Bittamleek**
31 December 2021				
Retail	**-**	**-**	**2,725**	**55,262**
Corporate	**1,333**	**17,911**	**1,168**	**8,217**
	1,333	**17,911**	**3,893**	**63,479**

On Assets	**Diminishing Musharaka**	**Forward Ijarah**	**Service Ijarah**
31 December 2021			
Retail	**9,887**	**719**	**15**
Corporate	**79,452**	**-**	**-**
	89,339	**719**	**15**

On Liabilities	**Current accounts**	**Wakala accounts**	**Wakala from financial institutions**	**Due to banks and financial institutions**	**Mudaraba saving account (including reserves)**
31 December 2021					
Retail	**737**	**25,857**	**-**		**8,266**
Corporate	**9,833**	**100,169**	**13,881**	**27**	**-**
	10,570	**126,026**	**13,881**	**27**	**8,266**

On Assets	Due from Banks and financial institutions	Financial assets at amortised cost	Deferred sales under Murabaha	Ijarah Muntahia Bittamleek
31 December 2020	RO'000	RO'000	RO'000	RO'000
Retail	-	-	1,997	59,977
Corporate	5,232	17,899	826	11,682
	5,232	17,899	2,823	71,659

On Assets	Diminishing Musharaka	Forward Ijarah	Service Ijarah
31 December 2020	RO'000	RO'000	RO'000
Retail	6,834	-	22
Corporate	67,580	-	-
	74,414	-	22

On Liabilities	Current accounts	Wakala accounts	Wakala from financial institutions	Due to banks and financial institutions	Mudaraba saving account (including reserves)
31 December 2020	RO'000	RO'000		RO'000	RO'000
Retail	727	23,465	-	-	7,758
Corporate	9,360	118,855	5,780	48	-
	10,087	142,320	5,780	48	7,758

28 Financial risk management (*continued*)

Credit risk (*continued*)

(c) Economic sector concentrations

	Assets				
	Deferred sales under Murabaha	**Ijarah Muntahiah Bittamleek**	**Diminishing Musharaka**	**Forward Ijarah**	**Service Ijarah**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
31 December 2021					
Personal	**2,762**	**55,494**	**10,074**	**722**	**15**
Construction	**-**	**5,625**	**26,161**	**-**	**-**
Manufacturing	**219**	**150**	**11,269**	**-**	**-**
Trade	**493**	**5**	**430**	**-**	**-**
Services	**463**	**2,946**	**43,644**	**-**	**-**
	3,937	**64,220**	**91,578**	**722**	**15**

	Current accounts	**Equity of unrestricted investment accountholders**
	RO'000	**RO'000**
31 December 2021		
Personal	**10,570**	**148,173**
Construction	**-**	**-**
Manufacturing	**-**	**-**
Trade	**-**	**-**
Services	**-**	**-**
	10,570	**148,173**

	Assets				
	Deferred sales under Murabaha	Ijarah Muntahiah Bittamleek	Diminishing Musharaka	Forward Ijarah	Service Ijarah
	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2020					
Personal	1,952	60,432	6,875	-	22
Construction	-	7,884	18,961	-	-
Manufacturing	87	202	12,307	-	-
Trade	507	23	600	-	-
Services	285	3,972	37,185	-	-
	2,831	72,513	75,928	-	22

	Current accounts	Equity of unrestricted investment accountholders
	RO'000	RO'000
31 December 2020		
Personal	10,087	155,858
Construction	-	-
Manufacturing	-	-
Trade	-	-
Services	-	-
	10,087	155,858

28 Financial risk management (*continued*)

Credit risk (*continued*)

Impairment assessment

Definition of default and cure

The Window considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Window considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Window also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the window carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Window
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Window
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection • Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Window's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Incorporation of forward-looking information

The Window incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Window formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Given the nature of the Window's exposures and availability of historical statistically reliable information, the Window derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

28 Financial risk management *(continued)*

Credit risk *(continued)*

Impairment assessment (continued)

Economic variable assumptions *(continued)*

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman).
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 42 USD/barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:6
   a. historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
   b. size of the detachment equal to plus/minus 0,87 standard deviation from the base scenario as an approximate representation of 33,33% probability of alternative (adverse and favourable) scenarios,
   c. the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).
4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

The following tables set out the key drivers of expected loss and the assumptions used for the Window's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2021.

Key drivers	**ECL scenario and assigned weightage**	**2021**	**2022**	**2023**
Real Finance Rate	Base scenario	7.1%	7.1%	7.1%
	Upside scenario	3.2%	4.7%	5.4%
	Downside scenario	13.0%	11.5%	10.6%
GDP	Base scenario	11.0%	3.5%	3.5%
	Upside scenario	11.0%	4.5%	3.9%
	Downside scenario	11.0%	2.3%	3.1%
GDP per capita	Base scenario	6.9%	-0.4%	-0.4%
	Upside scenario	6.9%	0.5%	-0.1%
	Downside scenario	6.9%	-1.3%	-0.9%

28 Financial risk management *(continued)*

Credit risk *(continued)*

Impairment assessment (continued)

Economic variable assumptions *(continued)*

The following tables set out the key drivers of expected loss and the assumptions used for the Window's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2020.

Key drivers	ECL scenario and assigned weightage	2020	2021	2022
Real Finance Rate	Base scenario	7.6%	7.6%	7.6%
	Upside scenario	5.8%	6.4%	6.9%
	Downside scenario	8.9%	8.1%	7.4%
GDP	Base scenario	4.3%	4.3%	4.3%
	Upside scenario	5.1%	4.3%	4.2%
	Downside scenario	2.9%	3.6%	3.7%
GDP per capita	Base scenario	0.2%	0.7%	0.1%
	Upside scenario	1.1%	0.4%	0.2%
	Downside scenario	-1.0%	-0.4%	-0.2%

Corporate and small business lending
For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises secured personal financing and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:
- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

28 Financial risk management *(continued)*

Credit risk *(continued)*

Impairment assessment *(continued)*

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 financing, the Window assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 financing that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Window determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The PDs are then assigned to each economic scenario based on the outcome of Window's models.

Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Window's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Window segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in Muzn.

The Window estimates regulatory and FAS 30/ IFRS 9 LGDs on a different basis. Under FAS 30/ IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI FAS 30/ IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

28 Financial risk management (continued)

Credit risk *(continued)*

Impairment assessment *(continued)*

Significant Increase in Credit Risk

The Window continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or LTECL, the Window assesses whether there has been a significant increase in credit risk since initial recognition.

The Window also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Window may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.
c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
d. Frequent changes in key senior management personnel without acceptable successors or professional management.
e. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
f. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

28 Financial risk management *(continued)*

Credit risk *(continued)*

Impairment assessment *(continued)*

Model risk management:

The Window has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss.

To manage the model risks, the Window has implemented the Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of Muzn. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Window has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defense for the Window in terms of usage of models.

Liquidity risk

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

Muzn's liquidity risk management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of the relevant CBO guidelines on liquidity risk management through cash flow approach. The liquidity management does not only measure the liquidity position of Muzn on an going basis but also examine how funding requirement are likely to evolve under various scenarios.

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

Treasury department of Muzn controls and monitors the liquidity risk and ensures that Muzn is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. The middle office in Credit risk division also monitors the liquidity position of Muzn and provides the liquidity gap to Treasury Department to meet liquidity gaps.

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is required to maintain a minimum required level of 100% effective from January 1, 2020.

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one year horizon. It is required to maintain a minimum ratio of 100% as per the regulatory guidance. The residual maturity profile of the assets, liabilities and equity at 31 December 2021 is as follows:

28 Financial risk management *(continued)*

Liquidity risk *(continued)*

31 December 2021	**Due on demand and up to 30 days RO'000**	**More than 1 month to 6 months RO'000**	**More than 6 months to 12 months RO'000**	**More than 1 year to 5 years RO'000**	**Over 5 years RO'000**	**Total RO'000**
Cash and balances with Central Bank of Oman	**12,124**	**1,089**	**765**	**519**	**559**	**15,056**
Due from banks and financial institutions	**1,333**	**-**	**-**	**-**	**-**	**1,333**
Debt type investments classified at amortised cost	**-**	**550**	**-**	**4,786**	**12,575**	**17,911**
Deferred sales under Murabaha	**217**	**1,100**	**357**	**1,458**	**761**	**3,893**
Ijarah Muntahiah Bittamleek – net	**585**	**3,663**	**4,166**	**11,977**	**43,088**	**63,479**
Diminishing Musharaka	**528**	**3,945**	**5,139**	**40,245**	**39,482**	**89,339**
Forward Ijarah	**-**	**-**	**92**	**627**	**-**	**719**
Service Ijarah	**-**	**1**	**1**	**7**	**6**	**15**
Property and equipment (net)	**-**	**-**	**-**	**-**	**334**	**334**
Other assets	**2,318**	**-**	**-**	**-**	**-**	**2,318**
Total assets	**17,105**	**10,348**	**10,520**	**59,619**	**96,805**	**194,397**
Current accounts	2,114	3,700	2,114	-	2,642	10,570
Due to banks and financial institutions	27	-	-	-	-	27
Other liabilities	11,675	-	-	-	-	11,675
Unrestricted investment account holders						
Mudaraba savings account (including reserves)	750	1,500	1,500	2,249	2,267	8,266
Due to banks and financial institutions under Wakala	5,027	8,854	-	-	-	13,881
Customer Wakala accounts	15,370	47,981	32,584	9,989	20,102	126,026
Owner's equity	-	-	-	-	23,952	23,952
Total liabilities and Unrestricted investment accountholders and owners' equity	**34,963**	**62,035**	**36,198**	**12,238**	**48,963**	**194,397**

28 Financial risk management *(continued)*

Liquidity risk *(continued)*

The maturity profile of the assets, liabilities and equity at 31 December 2020 is as follows:

31 December 2020	**Due on demand and up to 30 days RO'000**	**More than 1 month to 6 months RO'000**	**More than 6 months to 12 months RO'000**	**More than 1 year to 5 years RO'000**	**Over 5 years RO'000**	**Total RO'000**
Cash and balances with Central Bank of Oman	14,368	1,660	861	614	993	18,496
Due from banks and financial institutions	5,232	-	-	-	-	5,232
Financial assets at amortised cost	532	969	-	-	16,398	17,899
Deferred sales under Murabaha	146	1,161	833	242	441	2,823
Ijarah Muntahiah Bittamleek – net	672	9,013	507	4,571	56,896	71,659
Diminishing Musharaka	490	28,336	5,175	674	39,739	74,414
Forward Ijarah	-	-	-	-	-	-
Service Ijarah	-	9	3	2	8	22
Property and equipment (net)	-	-	-	-	530	530
Other assets	1,578	-	-	-	-	1,578
Total assets	23,018	41,148	7,379	6,103	115,005	192,653
Current accounts	2,017	3,530	2,018	-	2,522	10,087
Due to banks and financial institutions	48	-	-	-	-	48
Other liabilities	5,015	-	-	-	-	5,015
Unrestricted investment account holders						
Mudaraba savings account (including reserves)	711	1,422	1,422	2,135	2,068	7,758
Due to banks and financial institutions under Wakala	5780	-	-	-	-	5780
Customer Wakala accounts	19,096	55,911	28,007	9,839	29,467	142,320
Owner's equity	-	-	-	-	21,645	21,645
Total liabilities and Unrestricted investment accountholders and owners' equity	32,667	60,863	31,447	11,974	55,702	192,653

28 Financial risk management ***(continued)***

Liquidity risk ***(continued)***

Liqudity coverage ratio for the year ended 31 December 2021:

	Total unweighted value (average) RO'000	Total weighted value (average) RO'000
HIGH QUALITY LIQUID ASSETS		
Total High Quality Liquid Assets (HQLA)	28,804	28,577
Cash outflows		
Retail deposits and deposits from small business customers of which	26,967	2,254
Stable deposits	7,820	339
Less stable deposits	19,147	1,915
Unsecured wholesale funding, of which:		
Operational deposits (all counterparties) and deposits in networks of cooperative banks	61,262	22,751
Additional requirements, of which		
Credit and liquidity facilities	-	-
Other contingent funding obligations	10,826	5,113
TOTAL CASH OUTFLOWS	**99,055**	**30,118**

	Total Unweighted Value (average) RO'000	Total Weighted Value (average) RO'000
Cash Inflows		
Inflows from fully performing exposures	1,956	1,212
Other cash inflows	3,058	3,058
TOTAL CASH INFLOWS	5,014	4,270
TOTAL HIGH QUALITY LIQUID ASSETS		**28,577**
TOTAL NET CASH OUTFLOWS		**25,847**
LIQUIDITY COVERAGE RATIO (%)		**110.56**

Net Stable Funding Ratio for the year ended 31 December 2021:

	Total weighted value RO'000
Total available stable funding	143,606
Total required stable funding	136,742
NET STABLE FUNDING RATIO (%)	**105.0%**

28 Financial risk management *(continued)*

Liquidity risk *(continued)*

Liqudity coverage ratio for the year ended 31 December 2020:

	Total unweighted value (average) RO'000	Total weighted value (average) RO'000
HIGH QUALITY LIQUID ASSETS		
Total High Quality Liquid Assets (HQLA)	27,676	27,449
Cash outflows		
Retail deposits and deposits from small business customers of which:	23,166	1,918
Stable deposits	7,972	399
Less stable deposits	15,194	1,519
Unsecured wholesale funding, of which:		
Operational deposits (all counterparties) and deposits in networks of cooperative banks	91,528	33,024
Additional requirements, of which Credit and liquidity facilities	2,567	257
Other contingent funding obligations	2,402	1,958
TOTAL CASH OUTFLOWS	119,663	37,157

	Total Unweighted Value (average) RO'000	Total Weighted Value (average) RO'000
Cash Inflows		
Inflows from fully performing exposures	28,635	27,834
Other cash inflows	2,397	2,397
TOTAL CASH INFLOWS	31,032	30,231
TOTAL HIGH QUALITY LIQUID ASSETS		27,449
TOTAL NET CASH OUTFLOWS		9,289
LIQUIDITY COVERAGE RATIO (%)		295.50

Net Stable Funding Ratio for the year ended 31 December 2020:

	Total weighted value RO'000
Total available stable funding	144,422
Total required stable funding	129,926
NET STABLE FUNDING RATIO (%)	111.2%

28 Financial risk management *(continued)*

Market risk

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

(a) Currency risk

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

(b) Profit rate risk

Profit rate risk (PRR) is the risk that Muzn will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders in based on Profit Sharing Agreements. Therefore, Muzn is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when Muzn's results do not allow it to distribute profits in line with the market rates.

Muzn has a detailed Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve. The responsibility of profit rate risk management rests with Muzn's Asset and Liability Management Committee (ALCO).

Profit rate risk is managed by monitoring the sensitivity of Muzn's financial assets and liabilities to various standardized profit rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in profit rate is provided below:

As at December 2021	**200 bps increase**	**200 bps decrease**
Earnings impact - RO'000s	**385**	**(385)**

As at December 2020	**200 bps increase**	**200 bps decrease**
Earnings impact - RO'000s	502	(502)

28 Financial risk management *(continued)*

Market risk *(continued)*

(b) Profit rate risk *(continued)*

Profit rate sensitivity gap

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

31 December 2021	Effective average profit rate %	Due on demand and within 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-profit bearing RO'000	Total RO'000
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	15,056	15,056
Due from banks and financial Institutions	0.0%	-	-	-	-	1,333	1,333
Debt type investments classified at amortised cost	5.1%	968	2,986	4,357	9,600	-	17,911
Deferred sales under Murabaha	5.4%	1,317	357	1,458	761	-	3,893
Ijarah Muntahia Bittamleek – net	5.3%	4,248	4,166	11,977	43,088	-	63,479
Diminishing Musharaka	5.8%	4,473	5,139	40,245	39,482	-	89,339
Forward Ijarah	N/A	-	-	-	-	719	719
Service Ijarah	6.0%	1	1	7	6	-	15
Property and equipment- net	N/A	-	-	-	-	334	334
Other assets	N/A	-	-	-	-	2,318	2,318
Total assets		11,007	12,649	58,044	92,937	19,760	194,397
Current accounts	N/A	-	-	-	-	10,570	10,570
Due to banks and financial institutions	0%	27	-	-	-	-	27
Other liabilities	N/A	-	-	-	-	11,675	11,675
Unrestricted investment account holders							
Mudaraba savings account (including reserves)	0.7%	2,250	1,500	2,249	2,267	-	8,266
Due to banks and financial institutions under Wakala	2.1%	5,027	8,854	-	-	-	13,881
Customer Wakala accounts	3.8%	63,351	32,584	9,989	20,102	-	126,026
Owners' equity	N/A	-	-	-	-	23,952	23,952
Total liabilities and owners' equity		70,655	42,938	12,238	22,369	46,197	194,397
On-balance sheet gap		(59,648)	(30,289)	45,806	70,568	(26,437)	
Cumulative profit sensitivity gap		(59,648)	(89,937)	(44,131)	26,437		

28 Financial risk management *(continued)*

Market risk *(continued)*

(b) Profit rate risk *(continued)*

Profit rate sensitivity gap *(continued)*

31 December 2020	Effective average profit rate %	Due on demand and within 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-profit bearing RO'000	Total RO'000
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	18,496	18,496
Due from banks and financial Institutions	0.0%	3,000	-	-	-	2,232	5,232
Financial assets at amortised cost	5.1%	968	2,986	4,357	9,588	-	17,899
Deferred sales under Murabaha	5.4%	1,307	833	242	441	-	2,823
Ijarah Muntahia Bittamleek – net	5.3%	9,685	507	4,571	56,896	-	71,659
Diminishing Musharaka	5.8%	28,826	5,175	674	39,739	-	74,414
Forward Ijarah	N/A	-	-	-	-	-	-
Service Ijarah	6.0%	9	3	2	8	-	22
Property and equipment- net	N/A	-	-	-	-	530	530
Other assets	N/A	-	-	-	-	1,578	1,578
Total assets		43,795	9,504	9,846	106,672	22,836	192,653
Current accounts	N/A	-	-	-	-	10,087	10,087
Due to banks and financial institutions	0%	48	-	-	-	-	48
Other liabilities	N/A	-	-	-	-	5,015	5,015
Unrestricted investment account holders							
Mudaraba savings account (including reserves)	0.7%	2,133	1,422	2,135	2,068	-	7,758
Due to banks and financial institutions under Wakala	2.1%	5,780	-	-	-	-	5,780
Customer Wakala accounts	3.8%	75,007	28,007	9,839	29,467	-	142,320
Owners' equity	N/A	-	-	-	-	21,645	21,645
Total liabilities and owners' equity		82,968	29,429	11,974	31,535	36,747	192,653
On-balance sheet gap		(39,173)	(19,925)	(2,128)	75,137	(13,911)	
Cumulative profit sensitivity gap		(39,173)	(59,098)	(61,226)	13,911	-	

28 Financial risk management *(continued)*

Market risk *(continued)*

(c) Equity risk

Currently, Muzn is not exposed to any Equity risk. The window applies the stress testing on a regular basis. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Operational risk

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

29 Capital risk management

Muzn manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. Muzn's overall strategy remains the same as applicable for Head Office.

The capital adequacy for Muzn is set out as below:

	2021 ***RO'000***	*2020* *RO'000*
Assigned capital	**20,000**	20,000
Retained earnings	**3,347**	1,040
Tier I capital	**23,347**	21,040
Expected credit losses	**700**	934
Tier II capital	**700**	934
Total capital available	**24,047**	21,974
Risk weighted assets (RWA)		
Credit risk	127,985	127,720
Market risk	1,827	2,367
Operational risk	7,585	7,009
Total RWA	**137,397**	137,096
Capital ratios		
Total capital ratio	**17.50%**	16.03%
Total Tier I ratio	**16.99%**	15.35%

30 Segmental information

Muzn is organised into three main business segments:

1) Retail banking – incorporating private customer current accounts, savings, deposits, deferred sales under Murabaha, Ijarah Muntahia Bittamleek, Forward Ijarah and Diminishing Musharaka.
2) Corporate banking – incorporating corporate customer current accounts, savings, deposits, deferred sales under Murabaha, Diminishing Musharaka, Ijarah Muntahia Bittamleek and Forward Ijarah.
3) Treasury and investments

30 Segmental information *(continued)*

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.
Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and deposits.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

At 31 December 2021	**Retail banking**	**Corporate banking**	**Treasury and investments**	**Others**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Segment operating revenues	**5,702**	**3,037**	**998**	**-**	**9,737**
Other revenues	**75**	**144**	**109**	**55**	**383**
Segment operating revenues	**5,777**	**3,181**	**1,107**	**55**	**10,120**
Profit expenses	**(1,041)**	**(4,058)**	**(75)**	**(124)**	**(5,298)**
Net operating income	**4,736**	**(877)**	**1,032**	**(69)**	**4,822**
Segment cost					
Operating expenses including depreciation	**(787)**	**(247)**	**(87)**	**(876)**	**(1,997)**
Impairment for finances net of allowance for provision	**9**	**(518)**	**(9)**	**-**	**(518)**
Net Profit for the year	**3,958**	**(1,642)**	**936**	**(945)**	**2,307**
Gross segment assets	**70,097**	**91,406**	**33,309**	**2,652**	**197,464**
Less: Impairment allowance	**(458)**	**(2,569)**	**(40)**	**-**	**(3,067)**
Segment assets	**69,639**	**88,837**	**33,269**	**2,652**	**194,397**
Segment liabilities	**33,949**	**110,144**	**13,908**	**36,396**	**194,397**

At 31 December 2020	Retail banking	Corporate banking	Treasury and investments	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Segment operating revenues	3,368	5,029	777	-	9,174
Other revenues	73	162	126	39	400
Segment operating revenues	3,441	5,191	903	39	9,574
Profit expenses	(667)	(4,205)	(53)	(116)	(5,041)
Net operating income	2,774	986	850	(77)	4,533
Segment cost					
Operating expenses including depreciation	(814)	(112)	11	(1,009)	(1,924)
Impairment for finances net of allowance for provision	282	(1,050)	23	-	(745)
Net Profit for the year	2,242	(176)	884	(1,086)	1,864
Gross segment assets	70,364	82,012	40,549	2,108	195,033
Less: Impairment allowance	(504)	(1,845)	(31)	-	(2,380)
Segment assets	69,860	80,167	40,518	2,108	192,653
Segment liabilities	31,304	128,215	5,828	27,306	192,653

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

31 Corresponding figures

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