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بنك ظفار
BankDhofar

ANNUAL REPORT 2021

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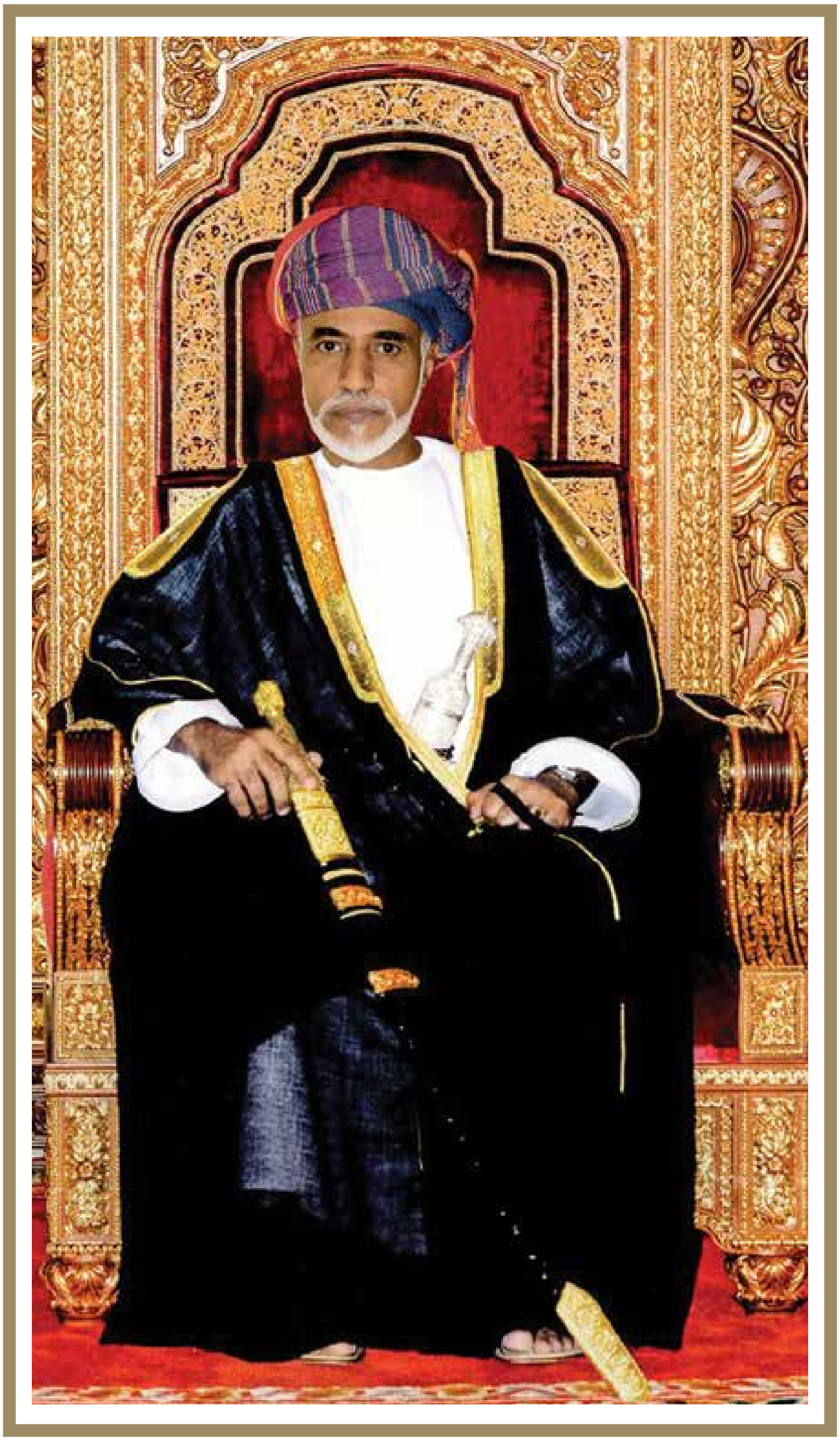

Late

Sultan Qaboos Bin Said

His Majesty

Sultan Haitham Bin Tarik

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MAISARAH ISLAMIC BANKING SERVICES

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

Dear Shareholders,

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

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

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

2021 Financial Overview

The key highlights of Bank's financials are summarized below

	31-Dec-21 RO million	31-Dec-20 RO million	Growth %
Net Interest Income and Income from Islamic Financing	**102.42**	107.64	-4.8%
Operating income	**126.45**	129.99	-2.7%
Operating expenses	**72.34**	65.08	11.2%
Expected credit losses	**24.65**	28.99	-15.0%
Net profit for the year	**25.12**	30.59	-17.9%
Total assets	**4,438.79**	4,257.02	4.3%
Net loans and Islamic financing	**3,346.22**	3,265.49	2.5%
Customer deposits	**2,975.64**	2,861.32	4.0%
Total equity	**698.52**	695.86	0.4%

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

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

Non-funded income increased by 7.47% by reaching RO 24.03 million compared to RO 22.35 million for the year 2021 and 2020 respectively.

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

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

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

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

Maisarah Islamic Banking Services - Financial Performance Highlights

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

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

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

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

Capital Adequacy

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

Distributed & Proposed Dividends

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

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

	2016	2017	2018	2019	2020
Cash Dividends	13.5%	12%	10%	3%	4%
Bonus Shares	7.5%	8%	7%	Nill	Nill

Corporate Social Responsibility and Sustainability

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

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

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

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

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

COVID 19 – Preventive Measures

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

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

Awards & Accolades

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

Digital Bank in Oman banking sector.

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

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

The Year Ahead (2022)

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

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

Acknowledgment

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

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

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

Eng. Abdul Hafidh Salim Rajab Al-Ojaili

Chairman

THE BOARD OF DIRECTORS

Name of Director: Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Basis of Membership: Chairman Non-executive
Non-Independent
Shareholder Director

Name of Director:
Mr. Ahmed Said Mohammed Al Mahrezi

Basis of Membership:
Vice-Chairman Non-executive
Independent
Non-shareholder Director

No. of other directorships held: 1

Name of Director:
Mr. Mohammed Yousuf Alawi Al Ibrahim

Basis of Membership:
Member Non-executive
Non-Independent
Representative Shareholder Director

No. of other directorships held: 1

Name of Director:
Mr. Tarik Abdul Hafidh Salim Al Aujaili

Basis of Membership:
Member Non-executive
Non-Independent
Representative Shareholder Director

No. of other directorships held: 3

Name of Director:
Mr. Zakariya Mubarak Ismail Al-Zidjali

Basis of Membership:
Member Non-executive
Non-Independent
Non-shareholder Director

No. of other directorships held: 0

Name of Director:
Mr. Hamdan Abdul Hafidh Al Farsi

Basis of Membership:
Member Non-executive
Independent
Non-shareholder Director

No. of other directorships held: 1

Name of Director:
Mr. Faisal Mohammed Moosa Al Yousef

Basis of Membership:
Member Non-executive
Independent
Representative Shareholder Director

No. of other directorships held: 0

Name of Director:
Sheikh Khalid Said Salim Al Wahaibi

Basis of Membership:
Member Non-executive
Independent
Representative Shareholder Director

No. of other directorships held: 0

Name of Director:
Sheikh Tariq Salim Mustahil Al Mashani

Basis of Membership:
Member Non-executive
Independent
Representative Shareholder Director

No. of other directorships held: 1

THE
EXECUTIVE TEAM

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

Ahmed Said Al Ibrahim
Chief Operating Officer

Karumathil Gopakumar
Deputy Chief Executive Officer

Tariq Saleh Taha
Chief Retail Banking Officer

Faisal Hamad Al Wahaibi
Chief Strategic Business Relations Officer

Vikesh Mirani
Chief Financial Officer

Leen Kumar
Chief Risk Officer

Mohammed Hilal Al Reyami
Head of Internal Audit

Shaleen Chugh
Head of Corporate Banking

Duraid Al Jamali
Head of Legal

Dr. Khalid Salim Al Hamadani
Acting Chief Human Resource Officer

Ali Mohamed Al Alawi
Head of Compliance

Amina Nasser Al Falahi
Head of Government Banking

Hani Habib Macki
Head of Asset & Wealth Management

Bashir Said Al Subhi
Head of Treasury

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED
31st DECEMBER 2021

REPORT OF FACTUAL FINDINGS TO THE SHAREHOLDERS OF BANK DHOFAR SAOG

1. We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Bank Dhofar SAOG (the Bank) as at and for the year ended 31 December 2021 and application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the 'Code').

2. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist the Board of Directors of the Bank in complying with the requirement of the Code issued by the CMA.

3. We have performed the following procedures:

   a. We have checked that the corporate governance report issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3; and

   b. We have obtained the details of the Bank's compliance with the Code, including any non-compliances, identified by the Bank's Board of Directors, included in the report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes or/and a checklist prepared by the Board of Directors to identify any non-compliance.

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

5. Because the above procedures do not constitute either an audit performed in accordance with International Standards on Auditing or a review in accordance with International Standards on Review Engagements, we do not express any assurance on the accompanying corporate governance report.

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

7. Our report is solely for the purpose set forth in paragraph 2 above and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' corporate governance report to be included in its annual report for the year ended 31 December 2021 and does not extend to any financial statements of Bank Dhofar SAOG taken as a whole.

PricewaterhouseCoopers

3 March 2022
PricewaterhouseCoopers LLC
Muscat, Sultanate of Oman

C.R. No 1230865
PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos, P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

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Corporate Governance Report

Part One

1 - Corporate Governance Philosophy:

Corporate Governance is an essential element in attaining, enhancing and retaining confidence of the Bank's stakeholders. Corporate governance lays down the relationship and responsibilities between shareholders, Board of directors and senior management of the Bank through the structure of setting objectives, formulating strategies, controlling and monitoring performance while ensuring compliance with regulations in letter and spirit and promoting a culture of transparency through disclosures and commitment to highest ethical standards.

The Board of Directors of BankDhofar SAOG (the Bank) bears the principal responsibility of establishing Corporate Governance as appropriate to the Bank within the broad framework laid down by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA).

Decision-making within the Bank has been broadly divided into two levels. The Board of Directors (the Board) at the top level, as trustees of the shareholders, bears the responsibility of strategic supervision of the Bank, apart from fulfilling statutory obligations. Some of the major responsibilities of the Board are discharged through four sub-committees, viz. the Board Executive Committee, the Board Audit Committee, the Board Risk Committee and the Board Nomination & Remuneration Committee. These sub-committees which operate under the Board approved charters have been meeting regularly and have contributed significantly to the effective functioning of the code of corporate governance. The charters of these committees meet all the requirements as laid down in the Code of Corporate Governance. In addition, the Board carries the responsibility of approving the strategic plans and internal policies to institute adequate controls for achievement of the set objectives and compliance with rules and regulations. The executive management of the Bank comprises of the Senior Members headed by the Chief Executive Officer.

Through this two-tiered interlinked governance process, an appropriate balance has been created between the need for focus and executive freedom, and the need for supervision, control and checks and balances of all activities and transactions.

The formal Code of Corporate Governance prescribes the highest ethical standards in the conduct of the Bank's business. The Senior Members of the Bank are fully cognizant of their responsibilities in setting personal examples so that the code is internalized within the Bank and becomes part of its culture.

2 - Board of Directors

The Responsibilities of the Board of Directors

The Board has the full authority to perform all acts required for managing the Bank and protecting and growing the shareholders' interests pursuant to its objectives besides securing the interests of other stakeholders. Such authority is not limited or restricted except as provided by the law, the Articles of Association or resolutions of the General Meetings. However, such authority is not extended to the operational matters and day-to-day affairs of the Bank which remains a responsibility of the Senior Management.

The responsibilities and functions of the Board include the following:

- Charting the overall strategic direction of the Bank and reviewing and approving the annual business and strategic plans.
- Monitoring the Bank's performance and evaluating whether the business is properly managed in accordance with the Bank's set plans.
- Approving the interim and annual financial statements and providing accurate information at the right time to the shareholders, in accordance with the guidelines of the Capital Market Authority.
- Forming various Board sub-committees, approving their charters and reviewing the functions of these committees.

- Adopting internal regulations and bylaws pertinent to steering and management of the affairs of the Bank.
- Reviewing all audit reports submitted by internal and external auditors and statutory agencies.
- Ensuring that the Bank conducts its operations in an ethical and transparent manner.
- Assessing and approving the proper delegation of authorities to executive management.
- Appointing and evaluating the functions and the performance of the Chief Executive Officer and other key employees.

Further, the Board exercises objective independent judgment on corporate affairs after having access to accurate, relevant and timely information.

Size and Terms of the Board

The Board consists of nine (9) non-executive directors who are elected by the shareholders at the Annual General Meeting. The term of office of the Board of Directors is three years and each Director can be re-elected for a similar period. The term of office of the current Board expires in March 2022.

Composition and selection of the Board

Members of the Board of Directors are elected from among the Bank's shareholders or non-shareholders. All members of the Board of Directors are non-executive Directors.

A minimum of one-third of the Board members shall be independent Directors, meeting the definition of independent director, as defined in the CMA Code of Corporate Governance issued in July 2015, which states that a director shall be deemed non-independent in the following cases:

(a) Holding ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.

(b) Representing a juristic person who holds ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.

(c) Had been, during the two years preceding candidacy or nomination to the board, a senior executive of the company, its parent company or any of its subsidiary or associate companies.

(d) Being a first degree relative of any of the directors of the company, its parent company or any of its subsidiary or associate companies.

(e) Being a first degree relative of any of the senior executives of the company, its parent company or any of its subsidiary or associate companies.

(f) Being a director of the parent company or any of the subsidiary or associate companies of the company being nominated for its board membership.

(g) Being, during the two years preceding candidacy or nomination to the board, an employee of any parties contractually engaged with the company (including external auditors, major suppliers or civil society organizations ("CSO") where the latter received a support in excess of 25% of the annual budget of such CSOs).

(h) Being, during the two years preceding candidacy or nomination to the board, an employee of the parent company or any of its subsidiary or associate companies.

(i) Holding about 20% of the shares of any of the above-mentioned parties during the two years preceding candidacy or nomination to the board.

The nomination of Board members is according to the rules and condition of the election of directors as issued by CMA. The election process is through direct secret ballot whereby each shareholder shall have a number of votes equivalent to the number of shares he/she holds. Every shareholder shall have the right to vote for one candidate or more provided the total number of votes in the voting form is equivalent to the number of shares he/she holds.

At present all the directors of the Board are non-executive, four are non- Independent and five are Independent within the scope of the definition of independence laid down by the CMA Code of Corporate Governance.

Board Committees

The Board has the following four Board Committees, whose objectives, powers and procedures are governed by the charters of the respective Committees, which are approved by the Board:

1. Board Executive Committee
2. Board Audit Committee
3. Board Risk Committee
4. Board Nomination & Remuneration Committee

Additional committees may be established from time to time based on business needs. Each committee has access to the information and resources it requires, including direct access to staff and consultants. The Board has selected the committee members based on their professional backgrounds, skills and other qualities they bring to the committees.

Sharia Supervisory Board

Sharia Supervisory Board was formed in the year 2012 for the Islamic Banking operations of the Bank's window, Maisarah Islamic Banking Services (Maisarah).

3 - Profiles of Members of the Board of Directors

Eng. Abdul Hafidh Salim Rajab Al Ojaili - Chairman

Eng. Abdul Hafidh Salim Rajab Al Ojaili is currently the Chairman of BankDhofar. He is the Chairman of the Board Executive Committee. He is a promoter shareholder of well-established institutions in Oman such as BankDhofar, Dhofar International Development & Investment Holding Co. SAOG, Dhofar Power Company SAOC and Oman Aviation Services Co. (SAOG). He holds Master Degree in Mechanical Engineering.

Mr. Ahmed Said Al Mahrezi - Deputy Chairman

Mr. Ahmed Said Al Mahrezi is a member of the Board of Directors. He is also the Deputy Chairman of the Board, the Chairman of the Board Nomination & Remuneration Committee, a member of the Board Risk Committee and a member of the Board Audit Committee. He has extensive experience in the public sector in Law, Finance, Investment & Administration, extending over a period of more than 34 years. Mr. Ahmed holds a Master of International Business Law.

Mr. Mohammed Yousuf Alawi Al Ibrahim - Director

Mr. Mohammed Yousuf Al Ibrahim is a member of the Board of Directors. He is also a member of the Board Executive Committee, a member of the Board Risk Committee and a member of the Board Nomination & Remuneration Committee. He is a Director of Dhofar University. He has extensive experience in directorship of private and public companies. His diverse portfolio includes being Shareholder, Executive & Managing Director of various private companies & Establishments. He is a Director of Dhofar University. Mr. Mohammed holds a Bachelor of Business Administration.

Mr. Tariq Abdul Hafidh Al Aujaili - Director

Mr. Tariq Abdul Hafidh Al Aujaili is a member of the Board of Directors. He is also the Chairman of the Board Risk Committee and a member of the Board Nomination & Remuneration Committee. He has extensive experience of public companies' directorship. Other positions held by him include Vice Chairman of Dhofar International. Development & Investment Holding Co. SAOG, Vice Chairman of Dhofar Insurance Co SAOG and Vice Chairman of Oman Investment & Finance Co SAOG. Mr. Tariq holds a Bachelor of Accountancy & Finance.

Mr. Zakariya Mubarak Al Zadjali - Director

Mr. Zakariya Mubarak Al Zadjali is a member of the Board of Directors. He is a member of the Board Audit Committee. He had over 27 years' experience in financial management, sourcing logistics, supply chain management and vendor development at the Ministry of Defence. Mr. Zakariya holds a Bachelor of Science and Master Degree in Military Sciences.

Dr. Hamdan Abdul Al Hafidh Al Farsi - Director

Mr. Hamdan Abdul Al Hafidh Farsi is a member of the Board of Directors. He is also the Chairman of the Board Audit Committee. He currently holds the position of Director of Risk Management at the Public Authority for Social Insurance (PASI). He is a director of National Gas Co SAOG. He has a wealth of experience extending for 26 years in Finance, Internal Audit and Risk Management. Mr. Hamdan Al Farsi holds a Bachelor, Master degree in Accountancy and PhD in Management.

Mr. Faisal Mohamed Moosa Al Yousef - Director

Mr. Faisal Mohamed Moosa Al Yousef is a member of the Board of Directors and a member of the Board Executive Committee He is the Chairman of Muscat Finance Co SAOG and a member of the Board of Directors of Dhofar International Development and Investment Holding Co SAOG. He is the Chief Executive Officer of Al Yousef Group. Mr. Faisal holds a Bachelor of Economics and is a fellow of the Association of Chartered Certified Accountants, U.K.

Sheikh Khalid Said Salim Al Wahaibi - Director

Sheikh Khalid Said Salim Al Wahaibi is a member of the Board of Directors, a member of the Board Executive Committee and a member of the Board Audit Committee. He is the Chairman of Al Omaniya Financial Services Co SAOG and Deputy Chairman of National Gas Co SAOG. He has a wealth of experience extending over 25 years as a Director and Managing Director of Assarain Group of Companies. Sheikh Khalid holds a Bachelor of Business Administration.

Sheikh Tariq Salim Mustahil Al Mashani - Director

Sheikh Tariq Salim Mustahil Al Mashani is a member of the Board of Directors, a member of the Board Executive Committee, a member of the Board Risk Committee and a member of the Board Nomination & Remuneration Committee. He is a Director of Dhofar University. He has extensive experience in directorship of private companies. His diverse portfolio includes being Shareholder, Chairman and Director of various private companies & establishments. Sheikh Tariq holds a Bachelor of Business Management.,

Part Two

1 - Members of the Board of Directors

The Board of Directors of BankDhofar (SAOG) consists of the following:

S. NO.	Name of Director	Basis of membership			No. of other directorships held in SAOG Companies
1	Eng. Abdul Hafidh Salim Rajab Al-Ojaili	Chairman Non-executive	Non-independent	Shareholder Director	-
2	Mr. Ahmed Said Mohammed Al Mahrezi	Deputy Chairman Non-executive	Non-independent	Representative of Shareholder Director	1
3	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member Non-executive	Independent	Non-shareholder Director	-
4	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	Member Non-executive	Non-independent	Non-shareholder Director	3
5	Mr. Zakariya Mubarak Al Zadjali	Member Non-executive	Independent	Non-shareholder Director	-
6	Mr. Hamdan Abdul Al Hafidh Al Farsi	Member Non-executive	Independent	Representative of Shareholder Director	1
7	Mr. Faisal Mohammed Moosa Al Yousef	Member Non-executive	Non-independent	Representative of Shareholder Director	2
8	Sheikh Khalid Said Salim Al Wahaibi	Member Non-executive	Independent	Representative of Shareholder Director	2
9	Sheikh Tariq Salim Mustahil Al Mashani	Member Non-executive	Independent	Representative of Shareholder Director	-

The Board of Directors held 9 meetings during 2021, as follows:

28 January 2021	22 February 2021	29 March 2021	29 April 2021
28 July 2021	5 September 2021	23 September 2021	27 October 2021
16 December 2021			

Details of meetings and remuneration of the Board of Directors of BankDhofar (SAOG) are as follows:

S. NO.	Name of Director	No. of meetings attended	Directors' benefits (Amount in OMR)	
			Sitting Fees Paid	Remuneration Proposed
1	Eng. Abdul Hafidh Salim Rajab Al-Ojaili	9	10,000	18,836
2	Mr. Ahmed Said Mohammed	9	10,000	17,333
3	Al Mahrezi	9	10,000	15,833
4	Mr. Mohammed Yousuf Alawi Al Ibrahim	8	10,000	17,333
5	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	8	10,000	15,833
6	Mr. Zakaria Mubarak Al Zadjali	8	10,000	17,333
7	Mr. Hamdan Abdul Al Hafidh Al Farsi	9	7,400	15,833
8	Mr. Faisal Mohammed Moosa Al Yousef	6	8,800	15,833
9	Sheikh Khalid Said Salim Al Wahaibi	7	7,600	15,833
	Total		**83,800**	**150,000**

2 - Sharia Supervisory Board (SSB)

The SSB consists of five members. The objectives of SSB include:

- To provide the Sharia rulings in all activities of the Islamic Banking Window (IBW)
- To supervise the compliance of the IBW with Islamic Sharia rules
- To enhance the IBW contribution in spreading the awareness and contribute in development of the Islamic banking.

The Sharia Supervisory Board has held 4 meetings in 2021.

S. NO.	Name of SSB Members	Designation	No. of meetings attended	Honorarium (Amount in OMR)	
				Sitting Fees Paid	Remuneration Proposed
1	Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab	Chairman	4	2,400	9,000
2	Sheikh Dr. Abdullah bin Mubarak Al Abri	Deputy Chairman	4	2,200	7,500
3	Sheikh. Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member	4	2,000	7,000
4	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member	4	2,000	7,000
5	Sheikh Dr. Mohammad Ameen Ali Qattan	Member (Non-Voting)	4	2,000	7,000

3 - Board Executive Committee (BEC)

The BEC comprises five members of the Board of Directors and meets as and when there is a business need. The Board Executive committee (BEC) is entrusted to guide the Bank management on three key strategic areas:

1. Approval of credit proposals - The BEC is responsible for approving certain credit proposals and overseeing the Bank's credit policy framework. The responsibilities of the BEC include reviewing and approving specific transactions up to the Bank's permitted risk limits, in particular those which exceed the authority of the senior management.

2. Strategy, Merger, Information & Transformation - The committee oversees matters pertaining to Strategy, Information Technology (IT), Transformation and Mergers. Review major projects handled by Enterprise Project Management Office. Review IT Strategy and major decisions relating to IT. The committee is to review and set the direction on the Bank's potential merger/s on behalf of the Board of Directors of the Bank in compliance with CBO, CMA and MOCI and other regulators guidelines and regulations. To conduct and finalize negotiations in relation to the potential merger on behalf of the Board of Directors of the Bank and also to oversee the steps of the merger to its final potential conclusion.

3. Capital, Funding & Bank Proprietary Book Investments - The Committee is tasked with reviewing and setting the direction on the capital and funding requirements of the Bank to ensure compliance with the CBO and Basel guidelines. It is also responsible for reviewing and setting the direction of the non-capital long-term funding requirements of the Bank, which are typically issued and listed on international or local markets, in addition to overseeing capital requirements. The Committee also oversees the management practices on investment matters. It monitors the Bank's investments and ensures that the Bank complies with its policies and regulatory requirements

The Members of the Board Executive (BEC) Committee are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Eng. Abdul Hafidh Salim Rajab Al Ojaili	Chairman of the Board Executive Committee	5
2	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	4
3	Mr. Faisal Mohammed Moosa Al Yousef	Member	5
4	Sheikh Khalid Said Salim Al Wahaibi	Member	4
5	Sheikh Tariq Salim Mustahil Al Mashani	Member	4

The BEC held 5 meetings in 2021.

4 - Board Audit Committee (BAC)

The Board Audit Committee (BAC) was formed by the Board of Directors with the following main objectives and responsibilities:

- To focus the attention of the Board and top management of the Bank on the importance of strong internal controls over financial reporting and sound risk management and governance practices.
- To review the adequacy and effectiveness of internal controls in the Bank and to recommend appropriate steps to improve them where required.
- To review the effectiveness of the system for monitoring the Bank's compliance with legal and regulatory provisions, Bank's Articles of Association, Charters, By-laws and internal policies and procedures established by the Board of Directors.
- To review the effectiveness of the internal audit function and approve the risk based internal audit plan as well as the availability of adequate resources and informational access.
- To recommend to the Board of Directors the appointment of the external auditors, their termination and remuneration and determine and review their terms of engagement.
- To meet the External Auditors and hear their views before forwarding the annual financial statements to the Board for approval.
- To report and bring to the attention of the Board any matters of concern with regard to the foregoing and any material accounting or auditing concerns identified as a result of the external or internal audits, or examination by supervisory authorities.

The Members of the Board Audit Committee (BAC) are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Mr. Hamdan Abdul Hafidh Al Farsi	Chairman of the Audit Committee	13
2	Mr. Ahmed Said Mohammed Al Mahrezi	Member	13
3	Mr. Zakariya Mubarak Al Zadjali	Member	13
4	Sheikh Khalid Said Salim Al Wahaibi	Member	10

The (BAC) held 13 meetings in 2021.

5 - Board Risk Committee (BRC):

The Board Risk Committee (BRC) was formed by the Board of Directors to focus on issues relating to Risk Management policies and procedures on a Bank-wide basis by arriving at a judicious policy decision collectively.

Roles and Responsibilities:

- To understand the risks undertaken by the Bank and ensure that they are appropriately managed.
- To develop risk policies, limits and procedures after assessment of the Bank's risk bearing capacity.
- To identify, monitor and measure the overall risk profile of the Bank.
- To verify models used for pricing complex products and transfer pricing.
- To review the risk models as development takes place in the markets and also identify new risks.
- To ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of Bank's operations.
- To build stress scenarios and measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and those predicted by the risk measures.
- To monitor compliance with various risk parameters by business lines.
- To hold the line management accountable for the risks under their control.
- Apprise the Board of Directors on significant issues affecting Risk Management in a timely manner.
- To oversee and ensure the implementation of CBO's guidelines on risk management systems in Banks.

The members of the Board Risk Committee (BRC): are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Mr. Tariq Abdul Hafidh Salim Al Aujaili	Chairman of the Board Risk Management Committee	9
2	Mr. Ahmed Said Mohammed Al Mahrezi	Member	10
3	Mr. Mohammed Yousuf Alawi Al-Ibrahim	Member	10
4	Sheikh Tariq Salim Mustahil Al Mashani*	Member	3

* Sheikh Tariq Salim Mustahil Al Mashani Joined the committee on 28/7/2021.

The (BRC) held 10 meetings in 2021.

6 - Board Nomination and Remuneration Committee (BNRC):

The Board Nomination and Remuneration Committee (BNRC) is formed by the Board to ensure that the overall human resources developments at Board of Directors and executive management levels are as per the strategic direction of the Bank.

At a strategic level, the Committee is responsible for reviewing and monitoring the following:

- Nominate qualified persons to assume senior executive management positions for the Board of Directors approval.
- Provide succession and development plans for the executive management.
- Develop succession policy/plan for the Board of Directors, at least for the Chairman.
- Prepare detailed job descriptions for the Chairman and Directors.
- Nominate qualified persons to act as interim Directors on the Board in the event of any seat becomes vacant.
- Prepare and review compensation policy of executive management.
- Endorse compensation package (salary, increment, promotion, & bonus) of executive management for Board of Directors approval.

The members of the Board Nomination and Remuneration (BNRC) Committee are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Mr. Ahmed Said Mohammed Al Mahrezi	Chairman of the Board Nomination and Remuneration Committee	10
2	Mr. Mohammed Yousuf Alawi Al-Ibrahim	Member	9
3	Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili	Member	10
4	Sheikh Tariq Salim Mustahil Al Mashani*	Member	4

* Sheikh Tariq Salim Mustahil Al Mashani Joined the committee on 28/7/2021.

The (BNRC) held 10 meetings in 2021.

7 - Directors' Remuneration

As all members of the Board are non-executive directors, no fixed salary or performance-linked incentives are applicable. The non-executive directors are paid an annual remuneration and sitting fees for attending the Board/ Committee meetings. Directors' proposed remuneration and sitting fees paid during 2021 are as follows:

	Proposed Remuneration OMR	Sitting Fees Paid OMR	Total OMR
Chairman of the Board	18,836	10,000	28,836
Board Members	131,164	73,800	204,964
Total	**150,000**	**83,800**	**233,800**

8 - Compensation Policy

In line with the CBO guidelines on remuneration disclosures, the Bank has described the relevant qualitative and quantitative disclosures in this Corporate Governance Report.

8 (a) Qualitative Disclosures:

The Compensation Policy supports the Bank's long-term business objectives. The current compensation practices are in line with the guiding principles of the CBO guidelines spanning across Risk Management and Risk Tolerance, supporting the business strategy, objectives, values and long term interests of the firm, avoiding conflicts of interest, governance, managing the control functions' pay, remuneration and capital management and profit-based measurement and risk adjustment. The Policy is reviewed at the periodic intervals. The Board of Directors of the Bank has a Board Nomination & Remuneration Committee (BNRC) which consists of a minimum of three Board Members, , with one Member representing the Risk Committee of the Board.The Committee's mandate is to frame compensation policy, systems and processes for implementation and or review.

The Total Rewards Strategy of the bank supports the growth of the bank in line with the long-term vision and objectives that take into account the longer term health of the institution and financial stability, while at the same time accomplishing the following goals related to our key talent:

- Attract and retain employees
- Motivate and reward performance
- Align rewards with the organizational culture
- Drive synergy between organizational and employee performance
- Encourage desired behaviours and recognize the required results
- Focus employees on achieving the organizational goals and objectives
- Ensure Pay mix is appropriate to generate desired productivity, behaviour and in line with CBO guidelines
- Transparent and lucid compensation systems to ensure employee adoption

8 (b) Material Risk Takers

Material Risk-takers are identified to include AGM & above and all staff with bonuses of more than OMR 35,000, within the agreed framework and in line with CBO guidelines. The Bonuses of the MRT's are deferred over the 4 years period wherein the first year, 55% of the bonus' paid as cash and the balance is paid equally over the subsequent 3 years, subject to certain conditions relating to malus and clawback. The Compensation Policy also specifies the treatment of payments of unvested bonus payment considering various scenarios.

8 (c) Risk Adjustment

Through a series of measures, the bank ensures that effective risk management processes are embedded into compensation systems addressing both ex-ante and ex-post adjustments.

The risk adjusted bonus funding mechanism shall comprise of Compensation Governance, Determination of Bonus Methodology, Employees Group, and Deferral Schedule. However, this mechanism will not be applied to accrue for the bonus pool for the control functions staff.

The existing methodology to determine the risk adjusted bonus funding mechanism is summarized below:

a. The bank assesses its liquidity and capital requirements prior to approving the bonus pool

b. The net profit is adjusted to factor in the various risk exposures faced by the bank

c. The Bank bonus distribution to its staff is based on the performance against pre-determined measures.

d. This consists of both short term and long-term incentives as appropriate to the employee's role.

8 (d) Control Functions

The Bonus for all staff employed in the Control Functions will be derived through a specific plan that has been designed to be in adherence with the CBO guidelines. This plan is based on a separate mechanism which has been designed to incorporate the current Market Price for the jobs as opposed to the bank's performance.

8 (e) Malus and Clawback

The policy of Malus & Claw Back is in place, in order to ensure that the bonus is paid based on accurate financial and operating data. If the Bank determines to seek recovery for the bonus payment due to causes that are mentioned in the Policy, the Bank shall have the right to demand from the staff to reimburse such amount to the Bank.

8 (f) Quantitative Disclosures

The Board Nomination and Remuneration Committee (BNRC) has held 10 meetings in 2021. As per the Policy, the bonus pool is a variable factor and depends on overall performance of the Bank; the Pool is funded by taking a percentage of the Net Profit.

The 5 key management members and their salaries and bonuses for 2021 was OMR 1,745 million. The amount disclosed is the amount paid for the reporting period. Certain components of the key management bonuses are paid on the deferral basis as per the guidelines issued by the Central Bank of Oman.

The period of services contract for expatriate executives is two years while the notice period for the top executives is three months.

9 - Compliance with Regulatory and Control Requirements

The Bank adhered to and complied with all relevant regulatory requirements in the last three years. No penalties were imposed in 2019. The Central Bank of Oman imposed a penalty of OMR 14,000 in 2020. The Examination Report of Central Bank of Oman for 2021 has not been issued at the date of preparing this report.

Also, the Bank complied with all provisions of the Code of Corporate Governance issued by the Capital Market Authority.

10 - Communication with Shareholders and Investors

All financial and non-financial information are disseminated in a timely manner. The management provides regular updates to the market on the Bank's performance and new developments, besides detailed disclosures in accordance with regulatory requirements and international standards. The Management Discussion and Analysis Report forms part of the Annual Report.

As part of enhancing BankDhofar's investors' relations image, the Bank has taken the following steps:

1. The Bank has created a separate section under its website "Investors' Relations" where all the relevant information, links, and documents of investors' interest and relevance are gathered under this section.

2. The Bank has created an email ID: investorsrelations@bankdhofar.com, which is available on BankDhofar's website under "Investors' Relations" section for further communication ensuring attending investors' and other external stakeholders' queries on timely basis. The bank receives various queries from external financial institutions and investors from time to time.

The Bank publishes its unaudited quarterly and audited annual financial statements and also hosts these and other relevant information on its website (www.bankdhofar.com) and Muscat Stock Exchange (MSX) website (www.msx..om). The quarterly and annual results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders of the Bank. Bank's all official news releases are displayed on the Bank's website.

11 - Market Price Data

a. Share Price Movements

The high/low share price information of the Bank during the financial year ended 31 December 2021, compared with Muscat Stock Exchange Financial Sector Index is as follows:

2021	BankDhofar Share Price (OMR)			MSM financial sector Index
Month	High	Low	Closing	Closing
January	0.106	0.098	0.102	5,492.61
February	0.105	0.100	0.103	5,429.14
March	0.109	0.103	0.106	5,699.73
April	0.109	0.100	0.107	,5,822.35
May	0.12	0.105	0.114	5,979.85
June	0.13	0.115	0.126	6,466.07
July	0.13	0.123	0.124	6,445.91
August	0.124	0.117	0.118	6,321.78
September	0.119	0.117	0.117	6,235.67
October	0.134	0.117	0.130	6,402.57
November	0.135	0.128	0.130	6,371.89
December	0.130	0.122	0.125	6,577.92

b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2021:

Sr.No.	Shareholder	Percentage of Ownership
1	Dhofar International Development & Investment Holding Company (SAOG)	24.38%
2	Eng. Abdul Hafidh Salim Rajab Al Ojaili & his companies	23.45%
3	Civil Service Pension Fund	10.58%
4	H.E. Yousuf bin Alawi bin Abdullah & his Companies	9.80%
5	Public Authority of Social Insurance	8.99%
6	Qais Omani Establishment LLC	6.98%
7	Ministry of Defense Pension Fund	5.19 %
8	Others	6.63%
	Total	**100.00%**

12 - Profile of the Statutory Auditors

With offices in 156 countries and more than 295,000 people, PwC is among the leading professional services networks globally. PwC's vision is to be the most trusted and relevant professional services business in the world - one that attracts the best talent and combines the most innovative technologies, to help organisations build trust and deliver sustained outcomes. This refreshed global strategy is termed as The New Equation, and it speaks to the two most fundamental needs clients and organisations are grappling with today.

Established in the Middle East for over 40 years, PwC Middle East has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 7,000 people. (www.pwc.com/me).

PwC is strongly committed to Oman where it is recognised as one of the leading providers of quality business advisory services. We have had a local practice in Oman since 1971 and now have 9 partners, 1 of whom is Omani and 6 directors, 1 of whom is Omani and approximately 134 other members of staff operating from our office in the Sultanate.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

13 - Other Matters

The last Annual General Meeting was held on 31 March 2021. The meeting was conducted as per statutory requirements and attended by the Chairman, Eng. Abdul Hafidh Salim Rajab Al Ojaili and the following members of the Board of Directors: Mr. Ahmed Said Mohammed Al Mahrezi, Mr. Tariq Abdul Hafidh Salim Al Aujaili, Mr. Zakariya Mubarak Al Zadjali, Mr. Hamdan Abdul Hafidh Al Farsi, Mr. Faisal Mohammed Moosa Al Yousef & Sheikh Khalid Said Al Wahaibi.

14 - Subordinated Loan (Outstanding and movements during 2021)

1. In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenor of 66 months. These facilities carry a fixed rate of interest, payable half yearly and the ,principal being repaid on maturity.

2. Details regarding movement in subordinated loan reserve are set out in note 18(2) in Notes to the financial statements.

15 - Perpetual Tier 1 Capital Securities

Tier 1 USD Securities

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

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

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

Tier 1 RO Securities

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

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

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

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

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

16 - Internal Audit External Quality Assessment Report Summary

The IIA Standards require internal audit division to have a Quality Assessment Review conducted at least once every five years by a qualified, independent reviewer. The Standards indicate that the objectives of the review may go beyond the evaluation of conformance to the Standards. Also, as per Decision No. 27/2021 of Capital Market Authority the evaluation shall be conducted by an accredited internal audit firm, provided the firm shall not be previously appointed as an external or internal auditor of the company in the last four (4) years.

EY was engaged to perform a Quality Assessment Review of Internal Audit, which compared the Bank's Internal Audit's policies, procedures and practices to the IIA Standards

The assessment was performed based on the following procedures during the review:

- Inquiries of, and discussions with management including interviews and discussions with selected key stakeholders; and
- Desktop review of relevant documentation including charters, methodologies and materials relevant to the planning, execution and reporting of audit activity performed by the Internal audit division (The IAD of BankDhofar is led by the Deputy General Manager Head of Internal Audit who is supported by Deputy Head of IAD and other team members including Executive Managers, Senior Manager, Managers and Officer level staff.

The IAD has an approved Internal Audit Charter which empowers them to initiate direct communication with any member of the staff to examine any activity, process and department of the Bank and to have full and unconditional access to any records, files and data of the Bank. The IAD is overseen by the Audit Committee ("AC") and its mandate includes provision of internal audits, special reviews and advisory support across the Bank. The AC periodically follows up on the status of the audit findings and meets regularly on a quarterly basis. The IA Charter, IA plan and department budget are approved by the AC.

Overall, BankDhofar's Internal Audit Division Generally Conforms to the IIA Standards and Code of Ethics. There are few areas which partially conform to those standards (i.e. 2330- Documenting Information, 2340-Engagement Supervision, 1311-Internal Assessments). EY has identified improvement opportunities based on leading practices that are aligned with the standards

17 - Acknowledgment

The Board of Directors confirms the following:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.
- It has reviewed the efficiency and adequacy of internal control systems of the Bank and that it complies with rules and regulations and internal policies.
- There are no material matters that affect the continuation of the Bank and its ability to continue its operations during the next financial year.

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

PROFILE OF THE
TOP 5 EXECUTIVES

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

With 32 years of progressive experience in all aspects of banking operations and a strong record of successful and inspirational leadership, Abdul Hakeem Al Ojaili was appointed as the Chief Executive Officer of BankDhofar in April 2017 to lead the bank on a comprehensive restructuring and transformation journey towards achieving an ambitious strategic vision to become the Best Bank in the Gulf in customer experience.

During his tenure, BankDhofar witnessed constant growth of business and reached remarkable milestones across all units and functions, including Corporate Banking, Retail Banking, Operations Management, Information Technology, Core Banking Systems, Corporate Support Services and Human Resources Development.

Abdul Hakeem holds a Master's Degree in Banking Management from the University of Exeter in the UK and a Bachelor's Degree in Business Administration, Marketing & Management from New England College in the USA. He is also an alumnus of both Harvard and London Business Schools' Executive Education Programs, and he was cross-posted to work on key assignments with a number of international banks.

Karumathil Gopakumar

Deputy Chief Executive Officer

Karumathil Gopakumar joined BankDhofar as Deputy Chief Executive Officer in November 2021. He is a veteran finance professional with more than 29 years of experience in various leadership roles in Wholesale Banking, Retail Banking, Treasury & FI, Investment Banking, Asset Management, Private Banking, Financial Control and Operations with renowned financial institutions.

Gopakumar is the chairman of the bank's Assets & Liabilities Committee and Management Credit Committee. He is also a member of the Management Executive Committee and Management Risk Committee.

Prior to joining BankDhofar, Gopakumar held several leadership positions at banks in Oman. He is a Chartered Accountant, Cost Accountant and Company Secretary from India, a member of the Chartered Institute of Management Accountants, London, Member of the ACI - The Financial Markets Association, London and a Member of the Corporate Treasurers, London. He also holds an MBA from IMD Lausanne, Switzerland.

Ahmed Said Al Ibrahim

General Manager & Chief Operating Officer

Ahmed Al Ibrahim brings in a wealth of experience accumulated throughout over 27 years in the banking and finance industry. Prior to his appointment as BankDhofar's General Manager & Chief Operating Officer, he has been mandated with various key assignments across different functions and business units including Management, Sales and Marketing, Government Banking, Quality Assurance, Investment Banking and Priority Banking.

Ahmed is the chairman of the Bank's Disciplinary Committee, and he is a member of the Management Executive Committee, Management Risk Committee and Procurement Committee.

Ahmed holds an MBA from the University of Hull in the UK and a Bachelor's Degree in Mass Communication from Sultan Qaboos University. He also attended the Executive Leadership Programs at the London Business School and several other programs in Management, Business and Banking.

Faisal Hamad Al Wahaibi

General Manager & Chief Strategic Business Relations Officer

Faisal Al Wahaibi is the General Manager & Chief Strategic Business Relations Officer at BankDhofar, and he brings in a wealth of more than 28 years of accumulated experience in Strategic Planning, Relationship Management, Customer Experience, Budgeting, Planning, Funding, Regulatory Affairs, Outsourcing and Restructuring, Cost Control and Reduction, Sales, Marketing, Distribution, Staff Development, telecommunications, Operations, Retail and Accounts.

Faisal is a member of the Bank's Management Executive Committee, Asset & Liability Committee, Management Credit Committee and Management Risk Committee.

Faisal holds a Bachelor's Degree in Marketing from the University of Missouri, USA. He is an alumnus of Harvard Business School, having completed the Advanced Management Program 192. He is on the list of Leading Practitioners in Financial Services Industry by the Asian Banker Excellence in Retail Financial Services Council and is certified in Risk Management by IIR Middle East.

Kamal Hassan Al Maraza

Chief Maisarah Islamic Banking Officer

Kamal Al Marazza is an experienced banker with over 21 years of experience in Corporate Banking, Relationship Management, Sales and Marketing, Risk Management and Business Strategy. Prior to his appointment as Chief Maisarah Islamic Banking Officer, he served in a couple of banks and financial institutions across Oman, including HSBC, Bank Sohar and the conventional operations at BankDhofar.

In addition to his post, Kamal is a member of a number of committees within the bank including the Management Executive Committee, Assets & Liability Committee, Management Credit Committee and Management Risk Committee.

Kamal holds a Bachelor's degree in Marketing from Saint Louis University in USA, and he attended Harvard Advanced Management Program, in addition to several specialized banking programs locally and internationally.

MANAGEMENT DISCUSSION & ANALYSIS REPORT

FOR THE YEAR ENDED
31st DECEMBER 2021

Economic Scenario and Outlook

During the financial year 2021, the Government of Oman has taken several initiatives to stimulate the economy and to neutralize the repercussions of COVID-19. Consequent to the meticulous vaccination campaign and opening of commercial activities, Oman economy continues to display signs of gradual recovery. Oman's average oil price was US$ 61/b during the year 2021 which was 35% higher than budgeted oil price of US$ 45/b. As per preliminary results of 2021, Oman budget deficit was RO 1,223 million which was 72% lower than deficit of financial year 2020. In order to provide support to private sector, the government paid RO 1.2 billion during the year 2021.

Oman's economic recovery was also corroborated by the credit rating agencies. During the year 2021, key credit rating agencies i.e. Standards & Poor's, Fitch and Moody's affirmed Oman's credit rating and revised outlook as B+(Positive), BB-(Stable), Ba3(Stable) respectively.

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

Institutional Banking Department

Institutional Banking Department (IBD) offers a range of financial solutions to its clients through treasury and financial institution activities and business lines.

With the most sophisticated digitally enabled platform, Treasury predominantly manages the funding requirements of the Bank while monitoring regulatory and internal liquidity ratio, interest rate risk, exchange rate risk, market risk, and liquidity risk on daily basis.

A highly skilled sales team is part of the treasury department, which structures and delivers tailored solutions on foreign exchange, interest rate, and commodity hedging instruments and investment services in government securities issued by the CBO, to cater to the evolving financial needs of the Bank's customers that includes Government and Semi-Government Entities, Corporates, SMEs, and high net worth individuals.

Being an active market participant, Treasury is actively involved in lending and borrowing operations with both local and international banks.

Financial Institutions Department establishes and maintains all international Correspondent Banking relationships of the Bank. The department ensures that the Bank's corporate and retail clients have access to the world through the wide network of leading correspondent banks and Capital Markets. Capitalizing on the excellent relationship with leading regional and global banks, the department actively assists the Bank's corporate customers with their global trade finance requirements.

During the year, regardless of the global pandemic, the department was responsible for arranging loans and deposits from various regional and international banks/investors to meet the requirements of the customers.

The substantial credit lines available from financial institutions around the globe have helped the Bank increase its ability to support the increasing business needs of the customers. The department will continue to look to identify treasury relationships and trade finance self-liquidating transactions within the Gulf Cooperation Council countries (GCC) and regional markets to build a sustainable long-term relationship that would benefit both the Bank and its customers.

Corporate Banking

The Corporate Banking department with its team of dedicated and experienced resources is always looking to enhance its service standards with innovation and providing value-added services to all corporate clients. The department aims to provide superior service with the least Turnaround time (TAT). Through the Corporate Centre, BankDhofar provides automated multipurpose kiosks wherein the customers can conduct their banking business at their convenient time and our multipurpose kiosks provide 24/7 service. During the year, another corporate center was opened in Salalah to enhance services for customers in Salalah region.

Corporate Banking Department plays a vital role in contributing to the Bank's Credit growth. The Bank's Credit growth is in line with the country's economic policy and with emphasis on specific diversified economic sectors. This will help in channelizing the resources to high priority, growth sectors, which are "emerging Corporates and well-established businesses" in line with Government initiatives.

The COVID pandemic has severely affected various economic sectors and small businesses, which is continuing. In line with Central Bank of Oman, guidelines, Bank has provided appropriate financial relief measures to all eligible borrowers. However, with the control over the spread of disease and increased vaccination BankDhofar is optimistic about improvement in business and economic recovery.

The Corporate Banking department also focuses on emerging Mid Corporates in the overall portfolio. Dedicated teams of relationship managers cater to customer requirements in Mid-Sector Corporates. The operational teams attend to various customer segments and provide tailor-made financing solutions based on their business needs. Bank has ensured the availability of adequate staff during the pandemic to serve corporate and other customers of the Bank and met their business requirements.

In continuation to Bank's policy of encouraging Small and Medium Enterprises (SME) sector, which is an important segment, the Bank has deployed committed business relationship managers to provide appropriate financing solutions to SME clients.

Corporate Banking Department is extending all Trade Finance related Services through a team of efficient and experienced professionals who are adept in handling, processing all trade finance transactions/needs of customers with the least turnaround time. Bank's Trade Finance products and services have been evolving continuously to meet the requirements of customers (both local and international). Continue to face the challenges due to COVID19 related movement restrictions and other limitations, the Bank's Trade Finance department was open throughout for customers and executing transactions without any delay.

As one of the biggest private banks in the Sultanate of Oman, BankDhofar provides customized services to all segments of customers based on their business requirements.

From a technology perspective, the Bank upgraded Core Banking System, which gives the flexibility to further enhance our services with process automation. BankDhofar has an extensive international network of correspondent banking arrangements making it possible to execute transactions and provide end-to-end monitoring for its customers. With a global reach and well-trained team offers quality service with quick turnaround time by leveraging in-depth understanding of trade and banking practices with correspondent institutions and ensuring a smooth handling of cross-border transactions.

The Corporate Banking Department is driving its business strategy in line with the overall Bank's Vision to achieve the Higher Goals.

Strategic Business Relationships Division

The Strategic Business Relationships Division is dedicated to address the requirements of a broader range of customers. BankDhofar has formed the Department to capitalize on the relationships with strategic partners.

Since its inception, BankDhofar has maintained a solid position in the market, through taking part in various national projects and contributing to the enhancement of Oman's economy. Strategic Business Relationships Division will capitalize on such relations, to increase BankDhofar's brand value, expand the customer base, access additional resources, and stimulate revenue growth.

Strategic Business Relationships Division comprises of the following Departments:

- Government Banking
- Corporate Advisory
- Brokerage
- Asset & Wealth management

Government Banking Department

Government Banking Department offers all banking products and services to Government/ Quasi-Government clients through dedicated resources. This ensures providing quick customer service and meeting the unique requirements of Government customers & Ministries with varied financial service needs.

Thus, the Bank offers a suite of products to meet the various business needs of all the Bank's customers.

Corporate Advisory Department

The Corporate Advisory department offers specialized services of strategic advisory to various industry sectors such as Oil & Gas, Telecom, Financial Institutions, Steel, Power & Utilities, and SMEs by providing tailor-made solutions & products. The products on offer include corporate and asset-level organic and inorganic growth/ exit strategies, mergers, acquisitions, management buy-outs/buy-ins, capital raising, capital restructuring, private placements, start-ups, and joint ventures.

Brokerage

The Brokerage unit provides clients with brokerage related services for dealing in investment securities (both equities & bonds) listed on the Muscat Stock Exchange (MSX) along with other services like EZ Trade (a service which allows clients to trade MSM securities online) as well as online and mobile banking IPO subscriptions.

Asset & Wealth Management Department

The department intends to provide asset and wealth management services to address the needs of affluent customers and institutions. The department will be equipped with an experienced team to provide customers with investment solutions and advise them on best products/practices to achieve their investment goals.

Retail Banking Division

In 2021, BankDhofar provided a special offering comprising loans, credit cards and insurance to the employees of targeted companies within Oman. In response to the Government's move to support pensioners in the Government and Private Sector, the Bank also continued to provide convenient financing facilities to reduce their financial burden and keep them financially healthy. The Bank continued providing the best customer service in Oman and ensuring quick turnaround time for loan applications.

In January 2021, BankDhofar launched the new saving scheme. The Bank offered a guaranteed monthly OMR 1,000 per branch prize draw and mid-year prize of OMR 50,000 for 2 winners and year end prize of OMR 100,000 for 2 winners, while Al Riadah customers had the chance to win OMR 10,000 in monthly draws plus OMR 25,000 in monthly draws for prestige customers and a winners of OMR 200,000 in the mid of the year draw and a winners of OMR 200,000 in the end of the year draw . In addition, there were monthly prizes for children, youth and retiree, occasion prizes including; Omani Women's Day prizes and Oman National Day prizes.

BankDhofar launched travel insurance and continued to offer a diverse selection of insurance packages such as Personal Accident insurance and Motor insurance. The Bank functions as an insurance agency and provides these services to meet customers' needs.

The Bank also implemented a comprehensive segmentation strategy for all its Retail Banking customers based on a combination of demographics and relationship maintained with the Bank. In doing so, the Bank has now embarked on a well-planned roadmap to match the right products, channels and services to the right customers to lead to greater customer satisfaction and one more step closer to the Bank's overall mission of providing the best customer experience. The segmentation strategy adopts the proprietary "Hierarchy of benefits" model where customer's benefits continue to evolve and keep pace with the customer's own lifecycle journey. The Bank is thus now well placed to provide the best range of products and services to all cross-sections of the society ranging from children, ladies, youth, expatriates, pensioners to high-net-worth customers.

Digital Banking

Digital Banking comprises of:

- Alternative Delivery Channels
- Centre of Innovation
- Customer Engagement Hub
- Payment Hub

Digital Banking owns the digital strategy, services on different digital channels. Digital Banking enables a bank's customers to access banking products and services via an electronic/online platform. Digital banking means to digitize all of the banking operations and substitute the Bank's physical presence with an everlasting online presence, eliminating a consumer's need to visit a branch. In line with these goals, BankDhofar's Digital Banking team won the coveted ''Best Digital Bank in Oman 2020 by Asiamoney Middle East's Best Bank Award''.

Center of Innovation

The Centre is an innovation-driven center to promote and create innovations that add value to BankDhofar.

The Innovation Centre was set up based on the main value definition adopted by the Bank: "Creating value through new ideas, every day and in every way", which is centered on encouraging the culture of innovation within staff, as well as promote innovation throughout all processes and functions, including creating new concepts for products and services.

The main aim of establishing the Innovation Center is to continue BankDhofar's dominance in customer experience and to remain the Bank of choice for all segments.

Building among the Bank's current and previous investments on systems and processes, to be able to capitalize on the opportunities efficiently, as well as produce effective Proof of Concept (POC's) and solutions to further support the vision of the Bank.

Main innovation outcomes of the year 2021:

- Launching Thawani Mojab Card (The first Digital Card in Oman)
- Collaborating with Fintechs for entering and launching their solutions in CBO's Fintech Regulatory Sandbox.

Alternative Delivery Channels

Alternative Delivery Channels grants BankDhofar customers the ability to access banking services easily via new, convenient, and innovative electronic channels which are available 24/7.

In 2021, Alternative Delivery Channels have successfully enhanced BankDhofar Mobile Banking App by emphasizing the new and ultimate look & feel experience for customers. Not only will the new app be aesthetically pleasing and unique, but also will provide additional and detailed services that will create an easy and lively interface for the customers. Additionally, Alternative Delivery Channels managed to induce and implement the Ripplenet service, which essentially enables instant transfers to India and many other countries, which will be enabled during the year 2022.

Customer Engagement Hub

BankDhofar Customer Engagement Hub is formed to manage the ongoing interactions between the Bank with current and potential customers. The official launch occurred on September 15th, 2021. This initiative is recognized by the Global Business Outlook Awards as the Most Innovative Customer Experience Initiative Award – Customer Engagement Hub.

By engaging with customers, keeping them informed, staying in touch, and keeping communication lines open, the Customer Engagement Hub ensures better customer experiences, higher sales, and easier conversion of prospects.

In the translation of its endeavor to offer the best customer experience, BankDhofar launched proactive calling service Interactive Voice Notification (IVN) in 2021. Being the first bank in the Sultanate to provide this innovative service, BankDhofar aims to be in touch and engaged with its customers around the clock.

The Interactive Voice Notification (IVN) provided by BankDhofar's Customer Engagement Hub assists customers proactively in cases of exceeding ATM pin entry attempts, to reset their PIN, forgetting Mobile Banking App password, reset their password, attempting to withdraw more than the card daily limit and increase their daily ATM withdrawal limit.

Customer Engagement Hub was established to provide the best customer experience in the region. The Hub is a strategic asset for BankDhofar, Maisarah Islamic Banking and Corporate Banking in generating results. The Hub ensures excellent culture for employees where people learn, contribute, and become masters of serving people in their financial needs.

The accomplishments in 2021 were mainly:

1. Started outbound sales for credit cards, motor insurance, loans and savings
2. Launched the IVN services for proactively calling customers before they call us for ATM Card limit increase, Mobile Banking Pin Rest and ATM debit card pin reset.

Payment Hub

The Payment Hub concept is the result of the ongoing Target Operating Model of converting the Card Center from Operational Department to Revenue generating Department. One of the main objective of the Payment Hub is to provide consumers with deeply personalized, contextual digital payment experiences to set the benchmark for commerce in this new era.

The Payment Hub oversees product and sales business strategies for acquiring and issuance business while managing all transaction processing and back-end operations across payment products. It also drived continuous process improvements & facilitate better internal synergies, by building strong relationships across the business and corporate functions.

Following are the main achievements achieved during the year 2021:

- First Digital Card: With Thawani Mojab card, BankDhofar was the first bank locally and 10 within GCC certified for "First Digital Card". A card with no (Card number, expiry date, account number and security value), only Name is printed on the card. Customers can get the remaining card data by viewing through their Thawani APP with an additional lair of authentication for security for several services including debit card coming soon.

Al Riadah Priority Banking Services

BankDhofar's Al Riadah Priority Banking Services continued providing a unique range of banking products and services, ranging from personalized cheque book, exclusive Al Riadah card, including Visa Infinite Debit Card, Visa Signature Debit Card, Visa Infinite Credit Card, and MasterCard Platinum Credit Card. BankDhofar has tailor-made financing solutions to meet the needs of its priority banking customers with low insurance fees and simple and fast procedures. The Bank also provides deposit accounts at competitive interest rates and low insurance fees. Al Riadah customers had the chance to benefit from the distinct monthly interest rate of the Savings Account. The Bank dedicated special prizes including Monthly Prizes worth total of OMR 120,000 (1 winner per month/ OMR 10,000), Al Riadah Prestige Monthly Prizes worth total of OMR 300,000 (1 winner per month/ OMR 25,000), Mid-Year Grand Prize worth OMR 200,000 for one winner, and Year-End Grand Prizes worth OMR 200,000 for one winner.

In 2021, Al Riadah Priority Banking Services won "Excellence in Priority Banking Services" award, at the Red-Carpet Signature Luxury 100 event. The award recognizes the exceptional services, products and financial solutions provided to the priority banking customers.

BankDhofar has dedicated Al Riadah counters in most BankDhofar branches and established specialized Al Riadah centers that provide a private and unique experience in Muscat (Muscat Grand Mall, Mall of Muscat, and Royal Opera House), Batinah - North (Sohar), and Dhofar (Salalah).

Corporate Services Division

Marketing and Corporate Communications (M&CC)

Marketing and Corporate Communications Department looks into bringing the visibility of BankDhofar brand through various activities. Additionally, the department also foresees the overall communication strategy, media relations and internal communication.

Intending to avoid the widespread of COVID19, BankDhofar continued the awareness campaigns internally and externally. "Your Health is Our Priority" digital campaign, aimed to spread awareness among customers and the public on the preventive measures to avoid the spread of Coronavirus. Additionally, the campaign encouraged customers to conduct their banking transactions through BankDhofar's digital channels, including, Mobile Banking App, Internet Banking, ATMs, and CDMs.

Internally, "Stay Safe.. Stay Healthy" campaign was ongoing to spread awareness among staff on the healthy practices to be safe and to create a healthy work environment, and to avoid the widespread of COVID19.

Within the same context and in support to the efforts done by the government to combat Coronavirus through the health care services and the vaccination campaigns, the Bank has collaborated with the Ministry of Health to provide vaccines to the employees and their spouses. M&CC raised the awareness among the staff, through internal communication, on the importance of the vaccine.

M&CC continued to circulate effective messages to employees through "Methal & Qudwa" communications. Additionally, in order to keep the staff updated with the initiatives, the department continued sharing the updates of various achievements and event coverages through Internal Announcement communication and BankDhofar WhatsApp. In 2021, M&CC launched the "M&CC Newsletter" in which the department shares the update of various campaigns and communication released every quarter.

M&CC conducted awareness campaigns for BankDhofar and Maisarah customers. These campaigns aimed at raising awareness among customers about the state-of-the-art products, services, financial solutions, and innovative digital services provided by the Bank. The campaigns targeted customers through various touchpoints including social media and digital channels.

The department conducted comprehensive Savings Account Scheme and Prize Account Scheme campaigns, through digital and social media channels as well as through organizing various prize draw events. The Savings Scheme aimed at instilling saving habit among different segments of the society.

M&CC department maintained the strong presence of BankDhofar brand in Muscat International Airport and Salalah Airport through the jet bridges.

In 2021, BankDhofar marked 31 years of successful operations; M&CC highlighted the achievements and success of the Bank since 1990. These achievements were topped with prestigious international, regional and local awards. In 2021 only, the Bank bagged more than 18 awards including; Excellence in Priority Banking Services Award - Al Riadah by the Signature Magazine, Best CX Transformation Project – BFSI by CX Live Show Awards, Best Customer Journey Mapping – BFSI by CX Live Show Awards, Best Change Management – BFSI by CX Live Show Awards, Most Innovative New Customer Service Initiative Award – Customer Engagement Hub by Global Business Outlook Awards, Technology Innovation of the Year Award – Sultanate of Oman by the ABF Corporate & Investment Banking Awards 2021. Additionally, the Bank was topped with HR Excellence Award for "People Development" at the OER Business Summit, Excellence in Customer Experience Award at the Oman Banking & Finance Awards 2021, Excellence in Innovative Products & Solutions Award at the Oman Banking & Finance Awards 2021, Best Mobile Banking Application - Sultanate of Oman 2021 by Finance Derivative Magazine Awards, Best Investment Bank - Sultanate of Oman 2021 by Finance Derivative Magazine Awards, Best Commercial Bank – Sultanate of Oman 2021 by Finance Derivative Magazine Awards, One of the most trusted brands in the Sultanate of Oman by Oman Economic Review Magazine (OER), Channel innovation runner up award by Infosys Awards, Best Business and Corporate Bank - Oman 2021 by World Economic Magazine Awards, BankDhofar ranked among top 50 banks in the Middle East by Forbes – Middle East, Best Digital Bank -Sultanate of Oman by Asiamoney Middle East's Best Bank Awards 2021, Best Bank for SMEs - Sultanate of Oman by Asiamoney Middle East's Best Bank Awards 2021, among other awards.

Corporate Social Responsibility Initiatives

CSR is an important pillar of BankDhofar's operations; environment elements, community development and social have always been among the priorities and interests of the Bank. In 2021, BankDhofar and Maisarah have contributed to various CSR initiatives, including:

- Contributed with OMR 500,000, which was distributed to the impacted families due to Tropical Cyclone Shaheen.
- Allocated OMR 10 Million as interest-free loans for affected customers and announced deferment of loan installments for up to 5 months.
- Within the same context, BankDhofar's and Maisarah's "Mujtamaie" volunteer team from took part in the relief efforts in the North and South Al Batinah Governorates.
- As part of its continuous efforts to preserve the environment and reduce waste levels; the Bank invested in getting reusable bags with BankDhofar logo. The bags were distributed to all staff in branches and departments, existing and potential customers, and local hypermarkets and stores.
- Maisarah Islamic Banking Services sponsored the "Green Mosque" renewable energy program, which is the first of its kind in the Sultanate. The program, which reduces electricity consumption and operational costs, comes in line with the directives of Oman Vision 2040 to achieve around 30% of the Sultanate's energy needs from renewable sources. The program will also raise awareness among the society on the effectiveness of using renewable energy sources.

Financial Inclusion Initiatives

1 - BankDhofar

- As part of Financial inclusion initiatives, Marketing and Corporate Communications has taken the responsibility to communicate to all individuals and businesses owners various retail products and services that meet their needs and are delivered in responsible and sustainable ways such as; awareness campaigns (segment-wise), sponsorship events, newspapers' press releases and advertisements, social media coverage ...etc.
- Aiming to ensure the best banking experience and to provide banking services to all members of society, the Bank has repositioned its products, services and financial solutions to suit the lifestyle of each customer. This step ensures that BankDhofar's innovative services and products cover all segments of the society including children, youth, ladies, expats, and priority banking customers.
- Social Media channels were essential in promoting products and services and different offerings in addition to utilizing corporate communications tools in highlighting BankDhofar's news and updates. The awareness campaigns don't only target existing customer base, but they cover general population to encourage public to join BankDhofar.
- BankDhofar has a branch network of 59 branches (designed appropriately to entertain disabled customers) across Oman to cover all demographics for customer banking ease. Key branches have extended hours till 9:00pm to meet customers banking requirements after normal banking hours.
- In order to assure higher consumer engagements and retention, BankDhofar has one of the best mobile banking application which is 24/7 accessible for real-time multiple transactions to migrate customer to mobile banking platform.
- The Bank has introduced CRM platform across its branch network to help the Bank focus on customer acquisition and encourage more customer to bank while offering the best customer experience and better cross-sell to the existing ones.
- Finally, the staff are trained regularly on multiple aspects of banking especially on selling skills and products available for each segment to ensure effective customer acquisition.

2 - Maisarah Islamic Banking Initiatives

- In 2021, Maisarah continued to work on various initiatives, including public awareness campaigns, to spread knowledge on Islamic banking in general, and the products, services and financial solutions offered by Maisarah. This aimed at expanding the customer base within the Sultanate and to offer a platform for existing and potential customers to understand and benefit from Islamic banking solutions. The introduction of these state-of-the-art products, cutting-edge technology and world-class financial solutions, also comes in line with promoting Maisarah as a leading Islamic financial institution that accelerates the competitiveness of the Islamic banking market in the Sultanate.

- As part of its ongoing support to various programs that aim at contributing to the growth and development of the Islamic finance industry in Oman, Maisarah participated and sponsored a number of events, including the 6th edition of IFN Oman Forum that highlighted a selection of fundamental topics like Oman Vision 2040 and the Islamic economy, green transition and sustainability-linked finance, Sukuk and investment funds, issues facing Islamic banks in Oman, disrupting and enabling Islamic fintech and crowdfunding platforms among other discussions.

- For further inclusion, Maisarah enhanced its digital banking channels and introduced several pioneering self-services that were available to users 24/7 to allow customers to complete transactions any time of the day through mobile banking and internet banking, and also utilize the larger network of BankDhofar ATMs/CDMs nationwide to for cash related services. These offerings were completely free of charge and were accessible to all Maisarah cardholders.

- Furthermore, the volume of interaction with customers has increased via Maisarah Prize Account scheme which ran throughout the year and attracted new customers, as well as promoted the culture of saving and financial management among participants.

- Moreover, Maisarah's investment in the development of the skillset of staff members continued with focus on products and service awareness, Islamic banking principles, cross-selling of financial solutions, soft skills and customer service quality enhancement. Staff recognition scheme has been introduced to encourage branch staff to raise the service quality and to promote the culture of service excellence that will eventually lead to operational and business excellence.

Information Technology Division

The Information Technology division at the Bank owns the technology strategy, application systems, digital channel systems and infrastructure; delivering services to support the bank's operations, growth, and transformation. The IT function is organized with an adequate focus on technology operations, infrastructure, project delivery and governance.

The continuing operational challenges from the global pandemic were successfully overcome and the department was able to ensure superior customer service by leveraging technology solutions; especially on remote working, digital collaboration models and scaling up of digital and self-service channels for customers.

The Bank continued its technology leadership by pioneering digital transformation and customer experience programs resulting in international and national recognitions and awards in the areas of digital transformation as well as governance, risk, and compliance implementations.

Continuing our innovation journey, the Bank partnered with leading FinTech's to offer innovative of financial solutions and services to the customers in Oman.

The on-going investments in regulatory technology ensured robust controls and regulatory compliance. The Bank received "Asian Banker Middle East and Africa Regional Award 2021 for Best Enterprise Governance, Risk and Compliance Implementation in Middle East".

The Bank also continued the ongoing investments in enhancing cybersecurity to ensure secure banking services to its customers. The systems have also been enhanced to support VAT and the infrastructure have been updated with IPV6 readiness during the year.

Central Operation Division (COD)

Central Operations Department (COD) plays a major role in handling back-end operations which pertains to day-to-day transactions, enabling the branches and business units to focus on customer service and business development.

The volume of transactions processed at COD continues to grow in line with the Bank's overall business growth. Continuous efforts are being made to redesign and simplify the processes through lean and automation. The effective utilization of technological solutions and tailor-made processes implemented has enabled to increase the staff productivity.

In the year 2021, COD, which is a part of Operations, has successfully implemented the following process re-engineering/automation:

1. Process change by implementing full straight-through process of instant customer credit round the clock for ACH inward payments.
2. Process change by implementing round-the-clock ACH outward payment processing for mobile banking and Intelligence Business Process System (iBPS).
3. Onboarded to SWIFT GPI basic tracker (Global Payments Innovation) which is currently used to track customer payments in SWIFT application.
4. Automation of payroll payment processing through a secured channel.
5. Automation of ACH direct debit payment processing for outward and inward.

In addition, there are number of regulatory projects in the pipeline which is to be implemented in 2022 such as; Real Time Gross System of Gulf Cooperation Council(RTGS-GCC), Buna Cross-border payment system owned by Arab Monetary Fund, The International Transaction Reporting System (ITRS), etc. along with other process enhancements which is related to payments processing.

Business Continuity Management (BCM)

In terms of regulatory requirements, the Bank has in place Business Continuity and Disaster Recovery Planning always aiming at continued operations and customers' services. Bank undertakes reviews and methods to ensure its capability to meet the contingency arising out of any unforeseen disasters, technological failures, and various other threats. In this regard, the Bank has taken several measures to strengthen the BCM implementation in the Bank. The key initiatives include:

- An exclusive Business Continuity Management (BCM) Department has been set up under Enterprise Operations Corporate Services to deal with such as identification, assessment of risks, reporting of Business Continuity Plan (BCP) activities, conducting BCP testing, organizing BCM awareness programs, issuing alerts to staff during adverse weather conditions, maintaining updated BCP document, conducting quarterly BCM Committee meetings, addresses regulatory and compliance /audit issues.
- Risk Assessment exercise is undertaken on annual basis to review the BCP-related risks and mitigation requirements. Business Impact Analysis (BIA) exercise is conducted on a half-yearly basis to identify and assess BCP back-up requirements by interacting with nominated Business continuity coordinators.
- Bank has set up an exclusive BCP Steering Committee, entrusted with the responsibility of overseeing BCM implementation and maintaining a sound BCP for the Bank. The Committee is reporting to the Board Risk Committee (BRC). The Committee is meeting on a quarterly basis to review that BCP formulated across the Bank are implemented and tested.
- Bank has set up state-of-art an alternate BCP site for resuming critical business activities in emergent scenarios. In the same location, Bank has also set up a secondary Data Back-Up Center as part of the Bank Disaster Recovery (DR) Plan.
- Various BCP testing are adopted to ensure that the Business Continuity Plan is logical and practically feasible. As part of this testing plan, Bank undertakes two major types of testing

- o BCP Simulation testing under partial disruption scenario (what if the current work location is not available) and
- o IT DR Drill under full disruption scenario (Primary data Centre not accessible/ unavailable scenario). During the year under review, Bank has conducted annual BCP Simulation testing (from September to December 2021) and IT DR Drill Exercise & BCP Testing: DR sanity for the upgraded Core Banking platform was done by IT in December 2020.

- Besides this, Bank conducts several other types of BCP testing such as Database backup testing, Back-Up branches testing, etc. to test the adequacy of systems and business resumption procedures in various disruption scenarios. And the Tabletop testing exercise is conducted to cross verify the preparedness of Business continuity leaders.
- In terms of disaster recovery and safety measures, fire drills are carried out as per requirements.
- Staff are provided periodical training on BCM aspects. Different programs are customized to cater to the different target groups. Importantly, during the period under review, customized specialized BCM e-Training Programs have been organized to benefit all end-users to undergo mandatory BCM programs at their convenience either at the office or at home. Also, as part of promoting BCM Awareness, new innovations are introduced such as screensavers containing BCM Messages and BCM posters explaining the importance of BCM strategy and the steps that should be taken.
- The Bank is in the process of obtaining BCM – ISO 22301 Quality Certification. Currently, Gap analysis along with a Corrective Action plan is implemented to strengthen the BCM capabilities, prior to obtaining Certification.
- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency. The contact detail of key officials is provided below:

Position	Contact information (+968 prefix)
Head of BCM Steering Committee – Acting AGM and Head of Ops & Support Services	24790466 - Ext:215 GSM: 99383443
Manager - BCM	24790466 Ext.: 754 GSM 93333318
Manager - BCM	24790466 Ext.:754 GSM 99757837

Credit Administration Department

Credit Administration Department (CAD) is the backbone for the lending related operations of the Bank. CAD department structure is formulated in a manner to accommodate post sanction operational process. This pertains to limit maintenance & disbursements, controlling of facilities & collateral documentation, pricing management & lodgment of security documents etc. These activities are carried under specific units allocated for Large Corporate Division, Business Banking and Retail Banking. Each of the units comprises of portfolios handled by portfolio holders and team leaders who are managed by a specialized unit manager.

These units are entrusted with the tasks to carry out the post loan-sanction activities such as identifying the borrowers legal structure and validate and review the know-your-customer (KYC) documents , Identify, value, and prudently classify and record the collateral, attach Bank's security interest in the collateral module and perfect the lien position in the collateral and also managing legal agreements , preparation of Covenant Compliance Reports, Key Risk Indicator monitoring and other monitoring tools to manage the loan portfolio. An additional CAD support unit was formed in the newly established Corporate Centre in Azaiba in providing swift services to the clients to reduce the turnaround time for many CAD related transactions.

As a key support procedure for the business segments of Retail and Corporate Banking, CAD has an established unit for public relations office (PRO) activities, which handles mortgages/joint registrations in Ministry of Housing and Urban Planning, Ministry of Commerce, Industry, and Investment Promotion (MoCIIP) & Royal Oman Police

(ROP) & the unit liaise with Muscat Security Market for the creation of pledge and release of shares. Additionally, the unit carries in out the preparation of Arabic letters to the external authorities for various requirements such as No Objection Certificates etc.

The Housing Loan Documentation Unit, which is allocated under the CAD Retail Segment, carries out custodian services for original housing loan documents and periodical revaluation for the purpose of MIS reporting for Capital Adequacy computation.

CAD has a Branch Support Unit which manages day to day activities which are centralized at the department. The system rights to handle these activities are solely entrusted with CAD. These activities include lien management, classification/de classification end process, blocking/de blocking end process as well as loan rescheduling and pricing related activities pertaining to the retail segment.

Another key activity handled by CAD is the role as the focal point and carries out the administration of the Oman Credit and Financial Information Centre (OCFIC) activities previously known as the Banking Credit Statistics Bureau (BCSB) of the Central Bank of Oman. This unit coordinates reporting, exception management, access control, complaint management as well as Management Information system (MIS)/Regulatory reporting pertaining to the Senior Management of the Bank. This BCSB unit directs the other related periodical regulatory reporting with the prudent coordination of divisions such as Business, Finance and Compliance. CAD plays an active role in the CBO's initiative of establishing the new Oman Credit Bureau (OCB). The unit is also entrusted with formulating the CAD policies and standard operating procedures (SOPs).

As a steppingstone for a self-development, CAD originated an intradepartmental staff learning & development section where staff members are given a choice to conduct their own periodical presentations and training programs to share the knowledge of their respective areas as well as their learnt skills. By initiating this CAD ensures there is a prudent transformation of knowledge as well as to enhance the presentation skills of the staff member.

As a vision for the future and the rapidly changing business environment, CAD has embarked on re-engineering and developing of the unit and the processes through Lean Six Sigma and 5s concepts using tools such as Robotic Process Automation (RPA) and Intelligent Business Process System (iBPS).

Policies and Procedures Department

Policies & Procedures department (PPD) continues to maintain an integrated model for linking strategies with everyday business processes & decision making at every level. The maintenance of the above stated integrated model brought together, standardized, and systematized all risk, control, compliance, and governance processes. Further, it helped in improving the efficiency of the operational framework.

PPD mainly undertakes the following activities:

- Act as nodal department and work closely with Management, Business, Operations, and Others to maintain and improvise internal governance & control framework of the Bank.
- Ensure that documents are designed to support business strategy & operations and promote sound working practices.
- Ensure that documents are accurate, clear-cut, presented consistently & uniformly, and easily identifiable & accessible.
- Ensure that documents are periodically reviewed for accuracy and applicability to address changing business dynamics.
- Ensure proper review mechanism/approvals are obtained and kept on record.
- Ensure that respective staff of units are provided with the updated documents through common shared folders and/or suitable mode of sharing and updated regularly & on timely manner as an ongoing process.

Apart from the core activities of developing and reviewing policies & procedures, PPD serves as a member to Management Risk Committee, and continues to contribute significantly in the successful implementation of various projects assigned time to time.

Legal Department

The Legal Department provides legal support and advice to all the Bank's departments and branches in order to safeguard the Bank's interests and prevent breaches. This is achieved by coordinating with the Bank's departments and branches to ensure correct implementation and interpretation of laws, regulations, circulars, and internal policies.

- The Legal Department is well established with an experienced team of lawyers and paralegals. Work is streamlined between the team members to increase turnaround time and the quality of the work.
- There has been an increase in the number of case settlements with customers and quicker responses to claims.
- The Legal Department conducts most of the review and drafting of contracts in-house to protect the Bank's interests and minimize risks while also improving quality and turnaround time.
- The Bank's policies and terms and conditions for both existing and new products, services, and standard forms are reviewed and updated in coordination with relevant departments.
- Various committees include the participation of the Legal Department.
- The Legal Department coordinates with the Central Bank of Oman, Capital Market Authority, Royal Oman Police, Public Prosecution, and other authorities as required.

Compliance Division

Compliance activities in the Bank are guided by the Central Bank of Oman (CBO), Capital Market Authority and other international capital market guidelines applicable to us from time to time, local and international applicable statutory guidelines/ obligations and international best practices.

The Board of Directors have established an effective Compliance function in the Bank and enforce its activities through a set of Board-approved policies and procedures. While, the first line, guided by Senior Management, ensures day to day operational management of compliance risk; at the same time, Compliance Division is entrusted to independently look after the effective management of compliance risk in the Bank by conducting periodic compliance monitoring & testing (CMAT), monitoring of regulatory limits, conducting gap analysis of applicable regulatory & statutory guidelines, transaction monitoring, transactions screening, screening of customers, etc. The Board approved Compliance Policy empowers Compliance Division to have direct access to the Board of Directors. However, for routine compliance risk-related issues, Compliance reports directly to the Board Risk Committee (BRC) for necessary guidance. Considering BankDhofar's "Together 2020" vision, the Bank has undertaken a fundamental restructuring of its Compliance function, aiming to be the best amongst its peers. In the last 3 years, the compliance operational landscape has shifted to maintain 'zero' level non-compliance risk in the Bank. In 2018-19, Bank engaged an external consultant of international repute to review the Compliance activities within the Bank. The final report was accepted by the Board. In 2020, Bank engaged another external compliance consultant of international repute for the compliance transformation program, titled Financial Action Task Force (FATF) Anti-Money Laundering (AML) Compliance Design & Implementation, and they have commenced the program since January 2020 which is currently under progress. The primary objective of the program is to ensure ongoing compliance with regulatory guidelines and relevant international standards and the best practices in letter and spirit.

The Bank strictly follows regulatory mandates and Financial Action Task Force (FATF) recommendations on Know Your Customers (KYC)/ Customer Due Diligence (CDD), Anti-money laundering (AML)/Combating Financing of Terrorism (CFT) and financing of proliferation of weapons of mass destruction as well as sanctions resolutions passed by United Nations Security Council (UNSC). Customers of the Bank are risk-rated, periodically reviewed and screened from the sanctions database and Suspicious Transaction Reports (STRs) are raised in case of suspicious transactions as per legal and regulatory requirements in Oman. The Bank relies on state-of-the-art IT systems of international specifications to monitor transactions for AML. Moreover, the system has been operationalized to screen SWIFT® transactions/messages from the sanctions database on real-time basis, and screen customers from the database for true sanctions match, Politically Exposed Persons (PEPs), adverse media, etc. BankDhofar is registered as Participating Foreign Financial Institution (PFFI) with Internal Revenue Service (IRS), Treasury

Department, United States of America (U.S.) for Foreign Account Tax Compliance Act (FATCA) Regulations. Bank has also successfully implemented regulations issued by the Organization for Economic Cooperation and Development (OECD) on Common Reporting Standard (CRS) and instructed by Central Bank of Oman (CBO) and Oman Tax Authority (OTA).

To promote value-based compliance culture and set the right tone at the top, Bank has been conducting Compliance related training for Board members, Senior Management and employees of the Bank. However, due to the ongoing pandemic situation, Bank did not conduct physical classroom trainings/ seminars during the year, but eLearning courses on AML and Sanctions related area were available for all the Bank staff, who are required to pass these eLearning courses on an annual basis. Compliance officials have coveted Certified Anti-Money Laundering Specialist (CAMS) certification from Association for ACAMS, in addition to the International Diploma in Governance, Risk and Compliance and Advanced Certificate in Managing Sanctions Risk examination by International Compliance Association (ICA) and are fully geared to face the emerging issues/ challenges on account of growing profile of the Bank and ever changing regulatory environment.

Risk Management Division

The primary responsibility of understanding the risks assumed by the Bank and ensuring that these risks are appropriately managed is vested with the Board of Directors of the Bank. The Board has set risk policies, limits and procedures by assessing the risk-bearing capacity of the Bank.

The overall risk management has been delegated to an independent Board Risk Committee (BRC) of the Board of Directors of the Bank, which monitors and controls the overall risk profile (including Maisarah Islamic Banking Services). The BRC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in the Bank. In this task, BRC relies on an independent Risk Management Division within the Bank.

The Bank has a well-established Risk Management Division (RMD) with a team of highly competent and experienced professionals. The primary responsibility of the RMD is to ensure, on a continuous basis, that an effective risk management framework exists and that the various divisions of the Bank, including Maisarah Islamic Banking Services, function within this framework. RMD also functions as an interface between the Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions of the Bank and in ensuring that policies and procedures are tailored to the defined tolerance levels.

The Bank's risk management strategy statement is expressed as follows:

1. Compliance with regulatory capital requirements;
2. Ensuring balanced performance across business units;
3. Placing emphasis on the diversity, quality and stability of earnings;
4. Making disciplined and selective strategic investments;
5. Maintaining adequate capital adequacy;
6. Providing qualitative and quantitative benchmarks to gauge broad alignment between initiatives and risk appetite;
7. Stable funding and strategic liquidity management allowing for business planning within the liquidity risk tolerance and regulatory requirements.

In 2021, Bank adopted a transformation program to comprehensively review and strengthen the risk management area and align it with best practices. Under the transformation program, review of the Bank's current risk management policies, procedures, processes, skill sets, risk information and reporting system and risk appetite was conducted by independent external experts and improvements made to strengthen risk management function and develop it as an area of core competence for the Bank. Each of the areas of risk identification, measurement, monitoring, reporting and mitigation were reviewed and strengthened.

1 - Risk Appetite

Bank has established a risk appetite framework, duly approved by the Board consisting of the risk appetite statements and dashboards. The framework is operational for the Consolidated entity ie for Conventional entity and Maisarah Islamic Banking Services. The framework is based on a top-down process consisting of specific quantitative and qualitative factors and provides an enforceable risk statement on the amount of risk the Bank is willing to accept in support of its financial and strategic objectives. The risk appetite statement set the "Tone from the Top" and covers various risk factors and appetite against each risk factor. The risk appetite is a key building block of the Bank's risk management culture and risk management framework. The Risk appetite statements are reviewed by senior management who recommend it to the Board for approval. Annual financial plans are reviewed against the risk appetite to ensure alignment. Regular monitoring of risk exposures is carried out to ensure that risk-taking activity remains within risk appetite. Performance against approved risk appetite is measured every quarter and reviewed by the Management Risk Committee, Board Risk Committee & Board. The Bank risk appetite framework has been cascaded to key business segments thereby ensuring that the Bank's aggregate risk exposure is within its desired risk-bearing capacity.

2 - Management of various Risks

A brief account of the various identifiable risks and their management process is given below:

1) Credit Risk

Credit risk is defined as the possibility that a borrower or counterparty may fail to meet its obligation in accordance with agreed terms in relation to lending, trading, hedging, settlement and other financial transactions. This risk is primarily managed by proper assessment of inherent risks in credit proposals and ensuring a balanced portfolio of customers meeting the risk appetite of the Bank. The Bank also ensures dealing with customers of good credit standing, a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the accounts. The Bank has taken the following measures to mitigate credit risk:

- Credit Risk Policy addresses credit risk emanating from lending to corporates and individuals. The policy also provides broad criteria for retail loans in a structured manner and is reviewed/ updated on regular basis. The policy has been defined for both Conventional Banking and Islamic Banking separately. The policies of the Bank encompass organizational responsibilities, prudential limits, credit risk rating standards, risk pricing standards, loan review mechanism, delinquent account management and portfolio management.
- Policy on Country and Counterparty Bank credit risk addresses credit risk emanating from exposure to banks as counterparties as well as countries. The maximum exposure that can be taken on a counterparty bank is specified by an internally developed model.
- The Bank has a credit risk rating system and a risk grade is assigned objectively to a borrower based on the single point score provided by the rating model. The grade is assigned to the Standard category of borrowers on a scale of 7. The rating models have been duly validated by the Bank through an independent third party.
- Various credit risk models are used to assess the obligor risk as well as the facility risk and while assessing the credit risk of the borrower, both probability of default and loss given default is estimated.
- Risk-Adjusted Return on Capital (RAROC) is computed to assess the risk-based pricing of each facility, which facilitates in informed decision making.
- The Bank conducts stress tests to assess the impact of credit risk on capital adequacy and profitability under stress situations.
- All the corporate credit proposals from both Conventional banking and Maisarah are reviewed by the RMD to assess the risk factors and suggest mitigates. The observations of RMD form an important input in credit decision making.

The Bank employs experienced and competent staff in the areas of corporate banking and provides them with regular training to upgrade and hone their credit skills. Detailed credit policies and procedures, strict adherence to the segregation of duties, elaborate and well-defined authority levels, periodical audit and examination by the internal auditors ensure that the culture of risk permeates through the business divisions supported by a rigorous environment of checks and balances.

2) Liquidity Risk

Liquidity Risk is the potential inability of the Bank to meet its maturing obligations to the counterparty. Liquidity planning and management are necessary to ensure that the Bank has the ability to fund its liquidity requirement effectively and to meet current and future potential obligations such as loan commitments, contingent liquidity commitments and unexpected deposit outflows.

The Bank has constituted an Asset-Liability Management Committee (ALCO), which is responsible for setting the broad framework for managing the liquidity risk effectively for both the conventional banking and Maisarah. The responsibility of managing the liquidity risk of the Bank, within this framework, lies with the Treasury Department of both the entities; Conventional banking and Maisarah, which discharges this function in association with other business divisions of the Bank.

The Bank has Board approved policy for both the entities on liquidity management which encompasses the assessment of liquidity gaps through cash flow and static approach, reserve against deposits, lending ratio, mitigation of liquidity risk and contingency measures. The Bank has set up a Middle office within RMD to ensure that the Treasury Departments of both the entities operate within these guidelines.

The Middle office regularly monitors the liquidity position of the Bank and helps in managing the liquidity gaps, well in time. It also conducts liquidity risk stress test periodically and Treasury Department ensures that sufficient liquid assets are available with the Bank all the time, to meet any business exigency.

3) Market Risk

Market risk is the risk of loss arising from unexpected changes in financial prices arising out of changes in interest rates, exchange rates, bonds, equity, and commodity prices. The Bank has major exposure in currency, equity and interest rate risk.

Asset-Liability Management (ALM) Policy and Investment Management Policy addresses all the aspects of the market risk. The ALM Policy addresses foreign exchange risk and interest rate risk whereas the Investment Management Policy addresses the equity risk.

The major foreign currency in which the Bank deals on a regular basis is United States Dollar (USD). The established parity between US Dollar and Omani Rial (OMR) substantially reduces this risk. However, in order to control currency exposure risk, limits for intraday and overnight positions have been set up in addition to currency wise stop-loss limits. Limit on net open position has been placed to restrict the Treasury department to take undue currency exposure as per the prudential norm set by the Central Bank of Oman (CBO). All these limits are monitored by the Middle office of the Bank.

BankDhofar manages the interest rate risk by matching the re-pricing of assets and liabilities and operating within the set gap limits. The Middle office in RMD regularly monitors the impact of adverse movement in the interest rate on profitability and economic value of equity in Conventional entity.

Maisarah is also vulnerable to rate of return risk (profit rate risk) and Asset Liability Management (ALM) Policy of Maisarah addresses this risk. Rate of Return risk arises because of unexpected changes in the market rate of return, which adversely affect a Bank's earnings. The profit distribution to Investment Account Holders (IAHs) is based on profit-sharing agreements and thus, Maisarah should not be subject to any significant rate of return risk. However, in order to meet customer's expectations and to remain competitive with the market, Maisarah may forego part or its entire Mudarib share of profit on funds managed on behalf of IAHs, in order to increase return to the IAHs. This absorption of additional risk by the Mudarib is known as Displaced Commercial Risk. Maisarah seeks to mitigate this risk through prudential reserve accounts such as Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR).

The middle office monitors the equity portfolio through daily reporting and assesses the risk inherent in the quoted domestic equity portfolio through the Value at Risk (VaR) approach. Various limits like stop-loss limit, transaction deal limit and realized loss limit are in place to manage the equity risk. All the investment proposals are reviewed by RMD to provide an independent view on the risks associated with them.

The middle office also conducts stress tests periodically to assess the impact of adverse movement of market variables on capital adequacy and places the same to the Board Risk Committee.

4) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal systems, processes, people, or external events. The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Management Risk Committee (MRC), comprising of the Executive Management team of the Bank, precedes BRC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for the management of operational risks within their respective scope of duties. In the financial year 2021, the Bank's operational risks were well controlled and losses from operational risks were kept at a low level. Trained and competent staff oversee the various operational functions of the Bank.

The Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator and Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. Continuing the task of improvement in existing systems and processes, the management system and tools for operational risks were further strengthened during the year.

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assesses the operational weaknesses in various processes and its likely impact on the Bank. During the RCSA exercise, processes in various departments were reviewed from an operational risk point of view and wherever high-risk events were identified, the existing controls were reviewed. With the completion of the RCSA exercise, a risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

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

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

5) Country Risk

Country risk arises from changes in the value of foreign exposure due to country-specific conditions, which may result from economic, social, political or natural events and may relate to factors such as exchange controls, currency devaluations, nationalization or expropriation of assets among others.

Country & Counterparty Bank Credit Risk policy addresses the country risk that may arise due to cross border exposure, in a structured manner. The Bank has in place a country risk assessment methodology that grades each country based on their risk profile. Suitable limits are assigned to undertake the business based on the internal risk rating grade of the countries.

The Middle office in association with the Financial Institution department monitors the country's risk and takes suitable steps in event of any downgrade or change in the economic activity of any country.

Recovery Department

Recoveries Department is established under Risk Management Division and is primarily responsible for handling and monitoring all Non-Performing Assets. The department is mandated to ensure the implementation of policies/ instructions of the Bank pertaining to the recovery of overdue under all non-performing loan and advances. The main objective of the department is to maximize the recovery by adopting various methods such as;

- Close follow up with the customers for recovery of past dues before initiating legal action.
- Negotiating for mutually acceptable settlements.
- Re-structuring the classified accounts with a definite source of repayments.
- De-classification of accounts in terms of the Bank's extant instruction and CBO's regulation in place from time to time.
- Liaison with Legal Department for demand notices and taking legal action for recovery.
- Regularly monitoring the progress of legal cases with the Bank's external lawyers.
- Coordinating with Royal Oman Police (ROP) and regulatory bodies to expedite various legal processes and execution of decrees and court orders.
- Providing information to Court Appointed Experts for the legal action initiated by the Bank.
- Gathering and maintaining market information on assets and investment of defaulters.
- Handling Asset Classification, monitoring security/ valuation of mortgaged assets.
- Validating/ maintaining provisions for Loan Loss Reserve/ Interest Reserve as per IFRS9/ CBO norms.
- Maintaining an effective MIS system.
- Regulatory Reporting – Internal/ External Auditors, CBO Examiners, Internal Departments/ Control functions

Internal Capital Adequacy Assessment process

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is an integrated enterprise-wide process that encompasses the governance, management, and control of risk and capital functions within the Bank. It provides a framework for ensuring an appropriate relationship between the risk profile and the capital held by the Bank, both in absolute terms and in terms of composition (Tier I & Tier II). This alignment between the capital and risks makes for better risk management.

The ICAAP covers the assessment of risks under Pillar 1 and Pillar 2 risks, viz. interest rate risk in the Banking book, concentration risk, business risk, reputation, legal and strategic risk. The ICAAP is facilitated by Risk Management and is supported by numerous functional areas which together help determine the Bank's internal capital adequacy assessment.

A Separate Working Group on Capital Planning under ALCO, monitors the overall adequacy of the Bank's available capital in relation to both internal and regulatory capital requirements.

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Human Resources Division (HRD)

The Human Resources Division has played an instrumental role in encouraging a Strong People & Performance Culture. In collaboration with the leadership team and the Board, the department has been able to drive and deliver corporate HR Transformation Programs and Projects developed with the strategic intent and objective to create a strong Performance Culture. The Bank has successfully implemented more than 50 Programs and Projects under the HR Transformation Journey: creating and building the right Culture, People, Processes and Systems.

BankDhofar, believes that people are the key competitive advantage and biggest differentiator to continue driving sustained performance. The Department strives to develop and invest in people at all levels of the organization through a common purpose to align all stakeholders' objectives, goals and aspirations. As a confirmation to the Bank's intent to foster development the Bank was awarded the HR Excellence Award for people Development at the Oman Economic Review Business Summit.

All Staff in the Bank are geared with functional exposure & business models to enhance niche skills, exchange ideas and views on areas related to Service Excellence, Technical expertise and international/regional best practices.

The primary objective of the HR Strategy is to enhance employee experience, engagement, open communication & regular feedback as well as empowering employees to grow by creating an environment that supports and fosters a high a performance culture.

Talent Management, Development & Retention

From a Talent perspective, the department will continue to focus on talent development and retention by developing and implementing career development programs, career opportunities, and by implementing competitive total rewards and recognition schemes that stimulate aspirations. These Programs are tailored for different talent segments in the Bank with the goal of creating specialized capabilities in different emerging businesses as well as a customer centric drive across Bankdhofar. Additionally, the Bank has conducted various programs targeting different talent segments all across the various levels in the Organization to develop specific functional and technical competencies to cater for the future succession planning needs of the Bank

The Bank has also worked on building talent to ensure that all high performance individuals and teams have the right career development opportunities to grow and achieve their potential and career aspirations. As a result of these programs, BankDhofar has been able to achieve over 95% Omanization and an attrition rate of less than 5%, being one the lowest in the Omani Banking Sector.

Learning & Development

The Human Resources division has a leading Learning & Development Academy that runs various training and development needs under the brand "Performance Academy". The Academy is the state of the art facility and core Hub for all the Learning and Development initiatives in the Bank aiming at improving employee performance, productivity, and career development. The Academy has an "Any Time Any Where Learning" digital e-learning tool available for employees. This blended learning management tool provides employees the flexibility to complete the courses assigned to them at their convenience from their work desk using the LMS portal or from home using the LMS mobile application. As a part of this initiative, various eLearning programs have been launched during the year which covers Lean Six Sigma and all of the regulatory programs including Anti Money Laundering, Anti-Fraud, sanctions and Information Security Awareness.

The Performance Academy worked as a driving machine to ensure that the lean Transformation Programs are cascaded across the Bank through trained professional lean practitioners. These practitioners led and championed lean processes for their respective businesses and operating units to achieve the Lean Operating Model.

Furthermore, and to build Omani staff skills and competencies, the Bank has also implemented specialized Banking programs. These programs include various Master Class Programs for Corporate, Risk & Islamic Banking through internationally recognized training providers and Secondment programs to other Banks across the globe to build the right capability for high potential Omani talent.

Digital People Program

As an integral part of the digital people strategy, BankDhofar has automated over 80 % of its employee services and benefits and has established an HR Contact Center to better serve the staff. The Division's focus is to continuously enhance employee related services and experiences across the Bank and enable faster turnaround time, swift processing, and service quality. Through the Digital People Program, the Human Resources Division strives to provide all the Onboarding, Talent Management, people analytics and essential banking services through a one stop Digital Platform to staff online.

Compensation Policy

In line with the CBO guidelines on remuneration disclosures, the Bank has described the relevant qualitative and quantitative disclosures in this Annual Report.

Qualitative Disclosers:

The Compensation Policy supports the Bank's long-term business objectives. The current compensation practices are in line with the guiding principles of the CBO guidelines spanning across Risk Management and Risk Tolerance, supporting the business strategy, objectives, values and long term interests of the firm, avoiding conflicts of interest, governance, managing the control functions' pay, remuneration and capital management and profit-based measurement and risk adjustment. The Policy is reviewed at the periodic intervals.

Bank has a Board Nomination & Remuneration Committee (BNRC) which consists of a minimum of three Board Members, with one Member representing the Risk Management Committee of the Board, The Committee's mandate is to frame compensation policy, systems and processes for implementation and or review.

The Total Rewards Strategy of the Bank supports the growth of the Bank in line with the long-term vision and objectives that take into account the long term health of the institution and financial stability, while at the same time accomplishing the following goals related to our key talent:

- Attract and retain employees
- Motivate and reward performance
- Align rewards with the organizational culture
- Drive synergy between organizational and employee performance
- Encourage desired behaviours and recognize the required results

- Focus employees on achieving the organizational goals and objectives
- Ensure Pay mix is appropriate to generate desired productivity, behaviour and in line with CBO guidelines
- Transparent and lucid compensation systems to ensure employee adoption

Material Risk Takers

Material Risk-takers are identified to include AGM & above and all staff with bonuses of more than OMR 35,000, within the agreed framework and in line with CBO guidelines. The Bonuses of the MRT's are deferred over the 4 years period wherein the first year, 55% of the bonus' paid as cash and the balance is paid equally over the subsequent 3 years, subject to certain conditions relating to malus and clawback. The Compensation Policy also specifies the treatment of payments of unvested bonus payment considering various scenarios.

Risk Adjustment

Through a series of measures, the Bank ensures that effective risk management processes are embedded into compensation systems addressing both ex-ante and ex-post adjustments. The risk adjusted bonus funding mechanism comprises of the key components including Compensation Governance, Determination of Bonus Methodology, identification of Employee Segments, and the Deferral Schedule.

The risk adjusted bonus funding mechanism shall comprise of Compensation Governance, Determination of Bonus Methodology, Employees Group, and Deferral Schedule. However, this mechanism will not be applied to accrue for the bonus pool for the control functions staff.

The existing methodology to determine the risk adjusted bonus funding mechanism is summarized below:

a. The Bank assesses its liquidity and capital requirements prior to approving the bonus pool

b. The net profit is adjusted to factor in the various risk exposures faced by the bank

c. The Bank bonus distribution to its staff is based on the performance against pre-determined measures.

d. This consists of both short term and long-term incentives as appropriate to the employee's role.

Control Functions

The Bonus for all staff employed in the Control Functions will be derived through a specific plan that has been designed to be in adherence with the CBO guidelines.

Malus and Clawback

The policy of Malus & Claw Back is in place, in order to ensure that the bonus is paid based on accurate financial and operating data. If the Bank determines to seek recovery for the bonus payment due to causes that are mentioned in the Policy, the Bank shall have the right to demand from the staff to reimburse such amount to the Bank.

Quantitative Disclosures

The Board Nomination and Remuneration Committee (BNRC) has held 10 meetings in 2021. As per the Policy, the bonus pool is a variable factor and depends on overall performance of the Bank; the Pool is funded by taking a percentage of the Net Profit.

The 6 key management members and their salaries and bonuses for 2020 was OMR 1,745,000. The amount disclosed is the amount paid for the reporting period. Certain components of the key management bonuses are paid on the deferral basis as per the guidelines issued by the Central Bank of Oman.

Financial Performance

The Bank reported net profit of RO 25.12 million (USD 62.25 million) for the year ended 31 December 2021 compared to RO 30.59 million (USD 79.45 million) for the comparative year which represents a decrease of 17.9%. Total assets of the Bank reached RO 4.44 billion (USD 11.53 billion) in December 2021 as compared to RO 4.26 billion (USD 11.06 billion) at end of 2020 representing increase of 4.23%.

Loans and advances (including Islamic financing receivables)

The Net Loans, Advances and Islamic financing receivables reached RO 3.35 billion (USD 8.69 billion) as at December 2021, compared to RO 3.27 billion (USD 8.48 billion) at the end of 2020 registering year-on-year increase of 2.45%. The Bank continuing the cautious approach on increasing the loan and financing book and focusing on asset quality.

An analysis of our key gross loan portfolio by segment is tabulated below:

RO Million

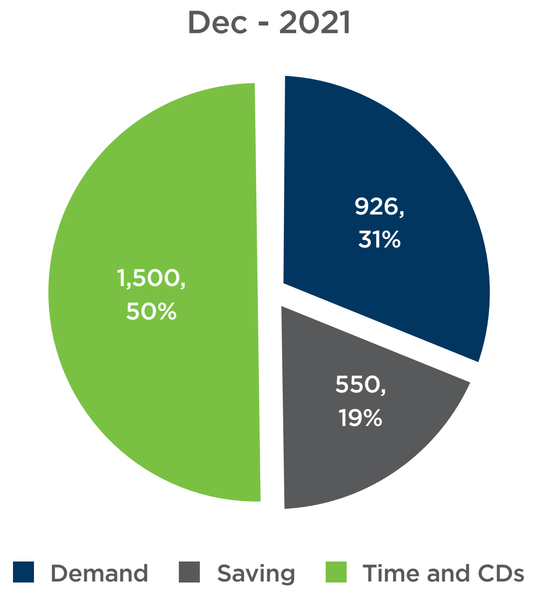
Analysis of our Loan portfolio by product is tabulated below:

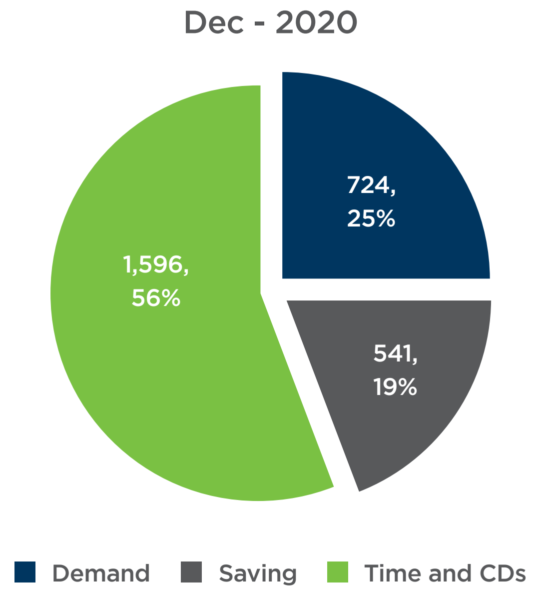
Loans, advances and financing to customers (RO Million)	31-Dec-21	31-Dec-20	Growth %
Overdrafts	**113.54**	123.76	(8.26)%
Loans	**2,769.15**	2,670.47	3.70%
Loans against trust receipts	**91.73**	83.75	9.53%
Bills discounted	**29.16**	39.09	(25.40)%
Advance against credit cards	**8.15**	8.52	(4.34)%
Islamic financing receivables	**502.09**	484.18	3.70%
Gross loans, advances and financing	**3,513.82**	3,409.77	3.05%
Less: Impairment allowance	**(167.60)**	(144.29)	16.15%
Net loans, advances and financing	**3,346.22**	3,265.48	2.47%

Customer deposits (including Islamic customer deposits)

Customer deposits, including Islamic deposits increase by 4.00% from RO 2.86 billion (USD 7.43 billion) at the end of 2020 to reach RO 2.98 billion (USD 7.74 billion) at the end of 2021.

The analysis of our Key deposits by product is given below:





Deposits from customers (RO Million)	31-Dec-21	31-Dec-20	Growth %
Current accounts	**754.32**	612.72	23.11%
Savings accounts	**485.35**	487.93	(0.53)%
Time deposits	**1,287.92**	1,375.22	(6.35)%
Margin accounts	**11.03**	12.19	(9.52)%
Islamic Customer deposits	**437.02**	373.26	17.08%
Grand Total	**2,975.64**	2,861.32	4.00%

Analysis of income and expenses

	31-Dec-21 RO Million	31-Dec-20 RO Million	Growth %
Net Interest Income and Income from Islamic Financing	**102.42**	107.64	-4.8%
Operating income	**126.45**	129.99	-2.7%
Operating expenses	**72.34**	65.08	11.2%
Expected credit losses	**24.65**	28.99	-15.0%
Net profit for the year	**25.12**	30.59	-17.9%

Bank's interest income on loans and Islamic financing receivables reached to RO 206.72 million (USD 536.94 million) compared to RO 205.25 million (USD 533.12 million) resulting year on year (YoY) growth of 0.71%. However, increase in interest expense surpassed growth in interest income and recorded YoY negative variance of 6.85%. Consequent to increase in interest expense, the net interest and financing income showed downward trend and stood at RO 102.42 million (USD 266.03 million) for the year ended 31 December 2021 compared to RO 107.64 million (USD 279.58 million) for the year 2020.

Non-funded income increased by 7.47% by reaching RO 24.03 million (USD 62.42 million) compared to RO 22.35 million (USD 58.05 million) for the year 2021 and 2020 respectively.

Total operating income stood at RO 126.45 million (USD 328.44) for the year ended December 2021 versus RO 129.99 million (USD 337.64) for the comparative period of 2020, showing decrease of 2.70%. Banks operating expenses for the year ended 31 December 2021 were higher than last year by 11.16% and stretched to RO 72.34 million (USD 187.90 million) compared to RO 65.08 million (USD 169.04) for the previous financial year. Due to lower operating income and higher operating costs, the Bank's cost to income ratio ascended to 57.21% as at 31 December 2021 compared to 50.06% for the last year.

Net Expected Credit Loss 'ECL' for the year 2021 is RO 24.65 million (USD 64.03 million) compared to 28.99 million (USD 75.30 million) for the year 2020, a decrease of RO 4.34 million (USD 11.27 million). Gross NPL (Non-performing loans) increased to 5.11% as at 31 December 2021 from 4.53% as at 31 December 2020. Net NPL, net of interest reserve is 4.26% at 31 December 2020 compared to 3.81% at 31 December 2020; Net NPL, net of interest reserve and ECL is 1.91% as at 31 December 2021 compared to 1.81% at 31 December 2020.

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

Bank's capital adequacy

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

Proposed Dividends for 2021 and historical dividend payouts

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

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

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

Way-forward; Future Outlook

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

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

FINANCIAL HIGHLIGHTS AND FINANCIAL RATIOS OF LAST FIVE YEARS

FINANCIAL HIGHLIGHTS OF LAST FIVE YEARS

(OMR'000)	2021	2020	2019	2018	2017
NET INTEREST INCOME (CONVENTIONAL)	82,759	92,219	84,649	87,918	84,605
NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES	19,664	15,421	10,182	9,509	8,521
NON INTEREST INCOME	24,023	22,353	35,133	34,426	33,801
OPERATING COSTS	72,340	65,079	71,474	65,456	58,994
OPERATING PROFIT (before Impairment losses)	54,106	64,914	58,490	66,397	67,933
PROFIT FROM OPERATIONS	29,455	35,923	36,092	59,743	56,031
NET PROFIT FOR THE YEAR	**25,123**	**30,585**	**30,244**	**50,281**	**47,627**
At year-end					
TOTAL ASSETS	4,438,786	4,257,023	4,325,845	4,213,490	4,246,710
NET LOANS, ADVANCES AND FINANCING	3,346,223	3,265,488	3,063,350	3,158,844	3,248,873
CUSTOMER DEPOSITS	2,975,639	2,861,315	2,943,188	2,924,504	3,068,409
TOTAL EQUITY	698,519	695,864	686,155	698,162	587,007
SHARE CAPITAL	299,635	299,635	299,635	280,033	225,786
FULL SERVICE BRANCHES	64	67	70	71	69
ATMs / CDMs / FFMs/ MFKs	192	189	202	190	179
STAFF	**1,481**	**1,522**	**1,586**	**1,600**	**1,514**

Financial Ratios of Last Five Years

	As at 31 December 2021	As at 31 December 2010	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
1. PROFITABILITY					
Return on Weighted Average Total Equity (including AT1)	3.60%	4.43%	4.37%	7.82%	8.50%
Return on Weighted Average Shareholders Equity	4.64%	5.71%	5.64%	9.92%	10.70%
Return on Weighted Average Paid-up Capital	8.38%	10.21%	10.43%	19.88%	22.91%
Return on Average Assets	0.58%	0.71%	0.71%	1.19%	1.16%
Non-Interest Income to Operating Income	19.00%	17.20%	16.09%	25.67%	26.63%
Operating Expenses to Operating Income	57.21%	50.06%	55.00%	50.50%	46.48%
2. LIQUIDITY					
Net Loans to Total Deposits	97.37%	98.56%	89.22%	95.91%	94.00%
Total Customer Deposits to Total Deposits	86.59%	86.36%	85.72%	88.80%	88.78%
Net Loan to Customers Deposits	112.45%	114.13%	104.08%	107.33%	105.88%
3. ASSET QUALITY RATIOS					
Loan Loss Provisions to Total Loans	4.77%	4.23%	3.72%	4.10%	4.07%
Non-Performing Loans to Total Loans	5.11%	4.53%	4.67%	3.68%	3.11%
Non-Performing Loans Net of Interest Reserve to Total Loans	4.26%	3.81%	3.91%	1.99%	1.72%
Net Non-Performing Loans	1.91%	1.81%	2.14%	0.73%	0.32%
Loan Loss Provisions to Total Non-Performing Loans	93.29%	93.35%	79.58%	111.38%	130.93%
4. CAPITAL ADEQUACY					
Common Equity Tier 1 Ratio	12.89%	12.45%	12.59%	11.88%	10.53%
Tier 1 capital ratio	16.75%	16.27%	16.40%	15.52%	13.29%
Total Capital Adequacy Ratio	17.74%	17.70%	17.86%	17.33%	15.44%
Shareholder's Equity/ Total Assets	12.23%	12.69%	12.27%	12.88%	11.10%

BRANCH NETWORK

Branch Network

Branch
Muscat North Area
Al Khoudh
Seeb Town
Ghala
Muscat International Airport
Mabellah
New Muscat International Airport
Muscat Center Area
Muscat Grand Mall
Qurum
New Bausher
Amarat
Muscat South Area
MBD
Muscat
Muttrah
Quriyat
Ruwi
Al-Batinah South Area
Barka
Rustaq
Suwaiq
Muladdah
Khadhra

Branch
Al-Batinah North Area
Sohar
Khaboura
Saham
Hafeet
Falaj Al Qabail
Shinas
Al-Dakhlyah Area
Nizwa
Sumail
Izki
Bahla
Bid Bid
Adam
Al-Buraimi & Dhahira Area
Al Buraimi
Yanqul
Ibri
Al-Sharqyah North Area
Ibra
Sinaw
Samad A'Shan
Al Muntrib
Mudhaibi

Branch Network

Branch
Al-Sharqyah South & Wosta Area
Sur
J. B. B. Ali
J. B. B. Hassan
kamil Al Wafi
Al Duqum
Dhofar East Area
Salalah
Saada
Taqa
Mirbat
Dhofar West Area
Salalah Gardens Mall
Salalah commercial District
Salalah Industrial

Branch
Al Riadah Prestige Opera Galleria

Branch
Corporate Centre

Maisarah Islamic Banking Services Branch Network

Branch
Azaiba
Salalah
Sohar
Birkat Al Mouz
Al Hail
Greater Muttrah
Al Khuwair
Sur
Al Araqi
New Salalah

Customer Engagement Hub contact details	
BankDhofar	24791111
Maisarah	24775777

DISCLOSURE REQUIREMENTS UNDER PILLAR-III OF BASEL II & III

pwc

Report of factual findings to the Board of Directors of Bank Dhofar SAOG in respect of Basel II - Pillar III and Basel III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures (the disclosures) of Bank Dhofar SAOG (the Bank) set out on pages 1 to 45 as at and for the year ended 31 December 2021. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007, Circular No. BM 1114 dated 17 November 2013 and Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018, letter BSD/CB/2020/001 dated 18 March 2020 and letter BSD/CB/2020/005 dated 3 June 2020. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements.

The procedures, as set out in Circular No. BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular No. BM 1009 dated 13 September 2006, BM 1114 dated 17 November 2013 and Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018, letter BSD/CB/2020/001 dated 18 March 2020 and letter BSD/CB/2020/005 dated 3 June 2020.

We report our findings as follows:

- Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than CBO. This report relates only to the Bank's disclosures and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of any financial statements of the Bank.

PricewaterhouseCoopers
Muscat, Sultanate of Oman
3 March 2022

برايس وترهاوس كوبرز ش م م
PricewaterhouseCoopers LLC
C.R. No 1230865

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290, Commercial Register No. 1230865 Tax Card No 8055889

1. Introduction:

The following detailed qualitative and quantitative public disclosures are provided in accordance with Central Bank of Oman (CBO) rules and regulations on capital adequacy standards issued through circular BM 1009 on Guidelines on Basel II, Islamic Banking Regulatory Framework and BM 1114 on Regulatory Capital and Composition of Capital Disclosure Requirement under Basel III. The purpose of these requirements is to complement the capital adequacy requirements and the Pillar II – Supervisory review process. These disclosures are intended for market participants to assess key information about the Bank's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among banks operating in the market.

The major highlights of the Central Bank of Oman (CBO) regulations on capital adequacy are:

a. To maintain capital adequacy ratio (CAR) at a minimum of 11% effective from 01 April 2018. Previously the minimum CAR requirement was 12%;

b. The predominant form of capital shall be Tier 1 capital of which Common Equity Tier (CET1) will form the major component;

c. To maintain capital adequacy ratio (CAR) at a minimum of 13.5% (including capital conservation buffer) effective from 01 January 2019. However, amid COVID-19 situation, Capital Conservation Buffer (CCB) was lowered by 50% from 2.5% to 1.25% with effective from 18 March 2020, bringing the overall CAR requirement to 12.25%;

d. The Bank is required to maintain at all times, the following minimum capital adequacy ratios:

  o Within the overall requirement of 12.25% CAR (including capital conservation buffer), Tier 1 ratio is to be maintained at a minimum of 10.25%;

  o Within the minimum Tier 1 ratio of 10.25%, minimum CET 1 ratio is to be maintained at 8.25%; and

  o Further, within the minimum overall capital ratio of 1 1% (excluding capital conservation buffer), Tier 2 capital can be admitted up to a maximum of 2% of Risk Weighted Assets (RWA) of the Bank;

e. To adopt the Basel II standardized approach for credit risk, using national discretion for:

  o Adopting the credit rating agencies as external credit assessment institutions (ECAI) for claims on sovereigns and Banks;

  o Adopting simple/comprehensive approach for Credit Risk Mitigants (CRM)

  o Treating all corporate exposures as unrated and assign 100% risk weight.

f. To adopt standardized approach for market risk and basic indicator approach for operational risk.

g. Capital Adequacy returns are submitted to CBO on a quarterly basis and the Bank's external auditors AUP report on capital adequacy returns on an annual basis.

As per Islamic Banking Regulatory Framework:

Islamic Windows of domestic conventional banks shall have and at all times maintain an allocated capital of not less than OMR 10 million or such higher amount as may be determined from time to time by the Central Bank.

Islamic windows are also required to maintain the minimum capital adequacy ratio of 11% of the RWA at all times. Within 11% Capital adequacy ratio, Islamic Window need to maintain minimum of 9% of RWA as Tier 1 Capital ratio. The capital buffer requirement is imposed at the consolidated level and thus, is not applicable at the Islamic window level.

2. Scope of Application:

The Bank has no subsidiaries or significant investments. However, Bank has introduced Islamic Banking through an Islamic window named as "Maisarah". Accordingly, the information in the document pertains to the consolidated entity i.e., for both conventional banking & Islamic window (Maisarah). The disclosure pertaining to Maisarah is provided separately.

3. Basel II & III Disclosures:

3.1 Capital Adequacy Norms

The Bank has calculated its Common Equity Tier 1 (CET1), Tier 1 and Total Capital Ratios in the following manner:

1. CET1 Capital Ratio = Common Equity Tier 1 Capital/ Total RWA

2. Tier 1 Capital Ratio= Tier 1 Capital/ Total RWA

3. Total Capital Ratio = Total Capital/ Total RWA

Tier 1 Capital is the sum of CET1 Capital and Additional Tier 1 Capital (AT1) and Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

The denominator, i.e, Total risk-weighted assets (RWA) is calculated as the sum of credit risk weighted assets, market risk-weighted assets, and operational risk-weighted assets, as provided for in CBO circular BM-1009 and Islamic Banking Regulatory Framework. In the case of Islamic banks, CBO has provided an adjustment factor of alpha at 30% in the RWA in the manner stipulated under Article 2.3.1 of title 5 of IBRF relating to Capital adequacy. However, as per communication received from CBO, for the time being no adjustment is applicable in the computation of RWA.

Based on the presently prescribed level of capital adequacy, banks operating in the Sultanate will be required to maintain at all times, the following minimum capital adequacy ratios as per Basel III, due to Covid-19: With effect from 18 March 2020;

CET 1 Capital Ratio: 8.25% of risk weighted assets

Tier 1 Capital Ratio: 10.25% of risk weighted assets (Going concern capital)

Total Capital Ratio: 12.25% of risk weighted assets (Gone concern capital)

With effect from 01 January 2016, Capital Conservation Buffer (CCB) has been implemented in a phased manner. The CCB was to be enhanced by 0.625%, thereby reached a level of 2.5% in 2019. However, amid the situation with COVID-19, CBO reduced the CCB to 1.25%, as a measure to support banks and FLCs. Further, CBO has also finalised Countercyclical Capital Buffer, which is intended to protect the banking sector as a whole from systemic risk that is often developed during an economic upswing, when there is a tendency towards excessive aggregate credit growth. The Countercyclical Capital Buffer lies between 0% and 2.5% of the total RWA; however presently the countercyclical capital buffer is not imposed. The capital buffer requirements shall be imposed at consolidated level but will not be applied at the Islamic Banking Window level. Thus from 18 March 2020 onwards, assuming a zero countercyclical capital buffer, banks shall operate above CET1, Tier 1 and Total Capital levels of 8.25%, 10.25% and 12.25% respectively due to current Covid-19 situation. However, before Covid-19 situation banks were expected to operate above CET1, Tier 1 and Total Capital levels of 9.5%, 11.5% and 13.5% respectively.

Based on the Basel III requirement, the capital structure of the Bank (as a consolidated entity) is presented as per Annexure I. A reference is invited to paragraph 91 of the Basel III rules, which states that banks should disclose "a full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements". The reconciliation process laid down is aimed at addressing the issues of disconnect between the numbers disclosed

3. Basel II & III Disclosures (Continued)

3.1 Capital Adequacy Norms (Continued)

for the calculation of regulatory capital and the numbers used in the published financial statements. However, there is no difference between the regulatory consolidation and the accounting consolidation. The components used in the definition of capital disclosure template are provided as per Annexure IIa and the same are mapped to the composition of capital disclosure template as per Annexure IIb.

Basel II, Pillar 3 guidance note states that banks should provide qualitative disclosure that sets out "Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments." Banks are required to disclose a description of the main features of regulatory capital instruments along with the full terms and conditions of the regulatory capital instruments issued by them. Bank presently has three types of capital instruments viz., Common Shares, Perpetual bonds in the form of Additional Tier 1 Capital and Subordinated Debt. The summary disclosure for these regulatory capital instrument issued by the Bank is provided at Annexure III.

3.2. Capital Structure:

The capital base for complying with capital standards is quite distinct from accounting capital. The regulatory capital is broadly classified into two categories – Tier I and Tier II. Bank's capital structure also consists of Tier I capital and Tier II capital.

Tier I capital includes paid up capital, share premium, Additional Tier I capital instruments, legal and general reserves and other disclosed free reserves, including subordinated loan reserves, non-cumulative perpetual preferred stocks and retained earnings (available on a long term basis) less regulatory adjustments like cumulative losses of financial instruments classified as Fair Value through Other Comprehensive income (FVOCI), goodwill & other intangibles.

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair value gains on FVOCI instruments, general loan loss provision/ general loan loss reserve in capital and subordinated term debt subject to certain conditions. Tier II capital of the Bank also includes 45% of Investment revaluation reserve and general provisions to the extent of total Stage 1 Expected Credit Loss (ECL) and permitted Stage 2 ECL, for which the Bank applies following two pronged approach:

1. The Stage 2 ECL amount as on 31 December 2019, is considered as "Base Year Amount" and will continue to get earlier phase out arrangement (ie 20% for 2021). The existing Stage 1 and Stage 2 ECL shall remain subject to 1.25% of the Credit Risk Weighted Assets.

2. The incremental ECL (Stage 2 ECL at a respective reporting date minus stage 2-ECL as at 31 December 2019) may be added back to the Tier 2 capital in the following manner. The incremental stage 2 ECL would not be subject to any ceiling for the time being.

Financial Year	Portion of Incremental Stage 2 ECL allowance considered for Tier 2 capital
2020	100%
2021	80%
2022	60%
2023	40%
2024	20%

3. Basel II & III Disclosures (Continued)
3.2. Capital Structure (Continued)

The details of capital structure are provided as under:

CAPITAL STRUCTURE:	RO'000 Amount
Paid up capital	299,635
Share premium	95,656
Legal reserve	64,538
Special reserve	16,988
Subordinated loan reserve	28,000
Retained earnings	28,923
Cash Dividend	(5,993)
Common Equity Tier (CET) I capital	**527,747**
Deferred Tax Assets	(3,420)
Negative investment revaluation reserve	(5,627)
CET I Capital – Regulatory Adjustments	**(9,047)**
Total CET I capital	**518,700**
Additional Tier I Capital	**155,500**
Total Tier I Capital	**674,200**
Investment revaluation reserve (45% only)	649
General provision (Sum of Stage 1 and permitted Stage 2 provision subject to max of 1.25% of credit RWA)	39,108
Subordinated loans	-
Total Tier II capital	**39,757**
Total eligible capital (Tier I + Tier II Capital)	**713,957**

3.3 Capital Adequacy Ratio:

The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings of external credit assessment institutions is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

3. Basel II & III Disclosures (Continued)
3.3 Capital Adequacy Ratio: (Continued)

The Bank's capital adequacy ratio is 17.74% as against the CBO requirement of 12.25% as at 31 December 2021. The Bank's Total Capital Adequacy Ratio, without add-back of the incremental Stage 2 ECL to Tier-2 capital , is 17.63%. The Bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks the Bank is exposed to and provides market return to the shareholders. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors and senior creditors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalized at all times.

The Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing Bank's capital adequacy in relation to the risk profiles as well as a strategy for maintaining the capital level. The objective of ICAAP document is to explain the Risk policies adopted, Target risk structure and Capital planning, the process of assessing the capital adequacy for credit, market and operational risk, Specific assessment procedures for risks not covered under Pillar I, process of Internal Control Mechanism and stress testing methodologies adopted by the Bank.

Bank has also formed working group on capital planning which meets periodically and assess the capital adequacy to support projected asset growth. The capital adequacy ratio is periodically assessed and reported to the Board Risk Committee (BRC). The composition of capital in terms of Common Equity Tier I, Additional Tier I, Total Tier I and Tier II are also analyzed to ensure capital stability and to reduce volatility in the capital structure.

1) Position of Risk weighted Assets is presented as under:

S. NO.	Details	Gross Balances (Book Value)	Net Balances (Book Value)*	Risk Weighted Assets
		RO'000	**RO'000**	**RO'000**
1	On balance sheet items	4,553,488	4,303,868	3,172,238
2	Off balance sheet items	546,866	525,890	525,404
3	Derivatives	1,481,482	1,481,482	21,999
4	**Total Credit Risk**	**6,581,836**	**6,311,240**	**3,719,641**
5	Market Risk	-	-	**64,345**
6	Operational Risk	-	-	**240,038**
7	Total Risk Weighted Assets	-	-	**4,024,024**

* Net of provisions and, reserve interest

3. Basel II & III Disclosures (Continued)
3.3 Capital Adequacy Ratio: (Continued)

2) Detail of Capital Adequacy:

S. NO.	Details	RO'000
1	Common Equity Capital	518,700
1	Tier 1 Capital	674,200
2	Tier 2 Capital	39,757
3	Tier 3 Capital	-
4	**Total eligible capital**	**713,957**
5	Capital Requirement for Credit Risk	3,719,641
6	Capital Requirement for Market Risk	64,345
7	Capital Requirement for Operational Risk	240,038
8	**Total Required Capital**	**4,024,024**
9	Common Equity Capital Ratio	12.89%
10	Tier 1 Capital Ratio	16.75%
	Total Capital Adequacy Ratio	17.74%

3.4 Risk Exposure and Assessment:

The risks to which banks are exposed to and the techniques that banks use to identify, measure, monitor and control those risks are important factors that market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk, interest rate risk in the banking book and operational risk. For each separate risk area (e.g. credit, market, operational, banking book interest rate risk) the Bank describes its risk management objectives and policies, including scope and nature of risk reporting and/or measurement systems and risk mitigation strategies.

3.4.1 Credit Risk:

Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the Bank's dealings with or lending to a corporate, individual, another bank, financial institution or a country. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

The Bank has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent benchmarks, limits for management of credit risks. Continuous review of the credit risk policy is done to always adapt to the business environment and regulatory requirements.

The Board of Directors delegate credit approval powers for Wholesale Banking and Retail Banking functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

Board Executive Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain loan approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment of all the Corporate, Business Banking and Project Finance credit proposals before they are considered by the appropriate approving authorities. The borrowers in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the borrower and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition, RMD reviews grading of obligors and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category); reviews are conducted at higher frequency.

The Bank has also established Credit Control department which looks after Loan Review Mechanism (LRM). LRM helps in ensuring credit compliance with the post-sanction processes/ procedures laid down by the Bank from time to time. It involves taking up independent account-specific reviews of individual credit exposures as per the Board approved LRM Policy. Credit Control department also monitors various credit concentration limits. Counterparty/group exposures are limited to 15% of the Bank's networth as stipulated by CBO and where a higher limit is required for projects of national importance, prior approval of CBO is obtained. The credit control department also undertakes monitoring of the retail loans.

Retail lending is in accordance with the CBO guidelines. The Bank uses a score card as a selection tool for the personal loans in conventional banking. Bank has also implemented Loan Origination System (LOS) which has automated the workflow of retail loan credit proposals in conventional banking. In Maisarah, retail financing is mainly in auto and housing finance category.

In addition to these, the Bank also undertakes business with international and local banks. The maximum exposures to international banks are defined through internally developed model and the total exposure to such counterparty banks is linked to the net worth of the Bank and regulatory ceiling. The maximum exposures to local banks is capped at 14% of the Bank's networth . The Bank has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the internal risk rating grades assigned to various countries and these limits are reviewed on half yearly basis. In addition to the internal limits, the Bank also adheres to the limits for countries and counterparty banks prescribed by CBO strictly.

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.1 Credit Risk (Continued)

In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention has also been applied to Maisarah financing.

Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Bank has adopted the International Financial Reporting Standards (IFRS) 9 guidelines for estimation of Expected Credit Loss as per International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, effective from 1 January 2018.

Credit Risk exposure of the Consolidated entity (i.e. both Conventional banking & Maisarah)

1) **Analysis of gross credit exposures, plus average gross exposure over the period broken down by major types of credit exposure:**

S. NO.	Type of Credit Exposure	Average Gross exposure		Total Gross exposures	
		RO'000	RO'000	RO'000	RO'000
	Conventional	**2021**	2020	**2021**	2020
1	Overdrafts	**121,263**	131,749	**113,544**	123,762
2	Loans	**2,752,245**	2,592,904	**2,767,279**	2,670,470
3	Loans against trust receipts	**91,520**	89,101	**91,730**	83,750
4	Other	**32,743**	35,798	**29,161**	34,227
5	Bills purchased /discounted	**3,268**	5,382	**1,873**	4,862
6	Advance against credit cards	**8,126**	8,784	**8,144**	8,521
	Total	**3,009,165**	2,863,718	**3,011,731**	2,925,592
	Islamic				
7	Murabaha Receivables	**30,593**	28,525	**29,218**	13,331
8	Mudaraba Financing	**46,072**	15,575	**17,819**	24,024
9	Ijarah Assets	**15,127**	46,367	**45,228**	46,410
10	Wakala Financing	**56,105**	47,965	**61,606**	52,019
11	Diminishing Musharaka Financing	**350,506**	337,992	**348,220**	348,399
12	Total Islamic	**498,403**	476,424	**502,091**	484,183
	TOTAL	**3,505,454**	3,340,142	**3,513,822**	3,409,775

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

2) **Geographic distribution of exposures, broken down in significant areas by major types of credit exposure:**

S. NO.	Type of Credit Exposure	Oman RO'000	Other GCC Countries RO'000	*OECD Countries RO'000	India RO'000	Pakistan RO'000	Other RO'000	Total RO'000
		1	2	3	4	5	6	7
1	Overdrafts	113,544	-	-	-	-	-	113,544
2	Personal Loans	2,767,279	-	-	-	-	-	2,767,279
3	Loans against trust Receipts	91,730	-	-	-	-	-	91,730
4	Other Loans	29,161	-	-	-	-	-	29,161
5	Bills Purchased / negotiated	1,622	-	-	-	-	251	1,873
6	Advance against credit cards	8,144	-	-	-	-	-	8,144
7	Any other	-	-	-	-	-	-	-
	Total	**3,011,480**	**-**	**-**	**-**	**-**	**251**	**3,011,731**
	Islamic							
8	Murabaha Receivables	29,218	-	-	-	-	-	29,218
9	Mudaraba Financing	17,819	-	-	-	-	-	17,819
10	Ijarah Assets	45,228	-	-	-	-	-	45,228
11	Wakala Financing	61,606	-	-	-	-	-	61,606
12	Diminishing Musharaka Financing	348,220	-	-	-	-	-	348,220
13	Total Islamic	502,091	-	-	-	-	-	502,091
	Total	**3,513,571**	**-**	**-**	**-**	**-**	**251**	**3,513,822**

Overdrafts and others includes in Personal loans and others

*excluding countries included in column 2

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

3) Industry or counterparty type distribution of exposures broken down by major types of credit exposures:

S. NO.	Economic Sector	Overdraft RO'000	Loans & Financing RO'000	Bills purchased RO'000	Others RO'000	Total RO'000	Off balance sheet exposure RO'000
1	Import trade	8,418	95,700	-	16,798	120,916	26,763
2	Export trade	221	7,872	-	7	8,101	5,404
3	Wholesale/retail trade	4,463	109,284	-	2,687	116,434	18,083
4	Mining and quarrying	1,435	105,060	-	12	106,507	676
5	Construction	43,883	342,719	-	57,116	443,719	222,583
6	Manufacturing	18,271	233,847	880	32,762	285,760	28,105
7	Electricity, gas, and water	1,099	196,113	-	416	197,628	17,197
8	Transport and Communication	1,264	58,207	-	518	59,988	4,884
9	Financial institutions	2,314	186,079	871	0	189,265	211,645
10	Services	20,083	347,660	122	3,763	371,628	20,364
11	Personal loans	1,425	1,075,613	-	7,805	1,084,844	1,674
12	Agriculture and allied Activities	3,812	1,097	-	4,828	9,737	5,649
13	Government	-	322,858	-	18	322,876	1,277
14	Non-resident lending	-	-	-	16,798	-	-
15	Others	6,856	189,134	-	429	196,419	4,921
	Total (1 to 15)	**113,544**	**3,271,244**	**1,873**	**127,161**	**3,513,822**	**569,225**

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

4) **Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:**

S. NO.	Time Band	Overdraft RO'000	Loans & Financing RO'000	Bills purchased/ Discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exp. RO'000
1	Upto 1 month	5,677	56,993	-	260	**62,930**	5,513
2	1 - 3 months	5,678	145,558	110	43	**151,389**	23,884
3	3 - 6 months	5,677	87,167	-	3,181	**96,025**	34,616
4	6 - 9 months	5,677	8,700	-	7,251	**21,628**	29,468
5	9 - 12 months	5,677	10,048	36	5,077	**20,838**	14,094
6	1 - 3 years	28,386	248,618	-	17,202	**294,206**	73,293
7	3 – 5 years	28,386	140,570	747	11,607	**181,310**	129,501
8	Over 5 years	28,386	2,573,590	980	82,540	**2,685,496**	258,856
	TOTAL	**113,544**	**3,271,244**	**1,873**	**127,161**	**3,513,822**	**569,225**

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

5) **Analysis of loan & financing book by major industry or counterparty type:**

S. NO.	Economic Sector	Performing loans RO'000	Non-performing loans RO'000	Expected Credit Loss for Stage 1 & 2 Exposure RO'000	Expected Credit Loss for Stage 3 Exposure RO'000	Interest reserve RO'000	Expected Credit Loss during the year RO'000	Advances written off during the year RO'000
1	Import trade	112,921	7,996	1,781	2,248	1,065	1,364	91
2	Export trade	8,093	7	94	3	4	-	-
3	Wholesale/ retail trade	106,860	9,575	3,558	4,168	1,662	663	266
4	Mining and quarrying	106,491	16	3,149	5	11	1	-
5	Construction	361,177	82,541	11,357	34,380	12,475	8,736	1,536
6	Manufacturing	281,947	3,814	3,045	1,322	144	1,201	443
7	Electricity, gas, and water	197,629	0	1,042	0	0	-	-
8	Transport and communication	59,733	256	766	125	74	160	363
9	Financial institutions	189,264	0	888	0	0	-	-
10	Services	369,527	2,102	8,970	808	601	232	61
11	Personal loans	1,200,010	60,384	11,081	32,859	12,136	11,808	3,299
12	Agriculture and allied activities	18,211	11	131	5	6	-	-
13	Government	147,324	0	152	0	0	-	-
14	Non-resident lending	251	0	0	0	0	-	-
15	Others	174,731	12,951	8,932	3,655	1,939	486	370
	TOTAL (1 to 15)	**3,334,169**	**179,653**	**54,946**	**79,578**	**30,117**	**24,651**	**6,429**

* Represents only on balance sheet NPLs.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

6) **Geographical distribution of amount of impaired loans:**

S. NO.	Countries	Exposure to Stage 1 & 2 RO'000	Exposure to Stage 3 RO'000	Stage 1 & 2 ECL RO'000	Stage3 `ECL RO'000	Interest reserve RO'000	ECL made during the year RO'000	Advances written off during the year RO'000
1	Oman	**3,333,918**	**179,653**	**54,946**	**79,578**	**30,117**	**24,651**	**6,429**
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries*	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	**251**	-	-	-	-	-	-
7	**TOTAL**	**3,334,169**	**179,653**	**54,946**	**79,578**	**30,117**	**24,651**	**6,429**

*excluding countries included in row 2

7) **Movement of Gross Loans/Financing:**

		Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	2,729,736	618,537	175,277	3,523,550
2	Migration/changes (+/-)	(132,165)	123,675	8,490	-
3	New Loans	96,003	32,247	3,302	131,552
4	Recovery from Loans	85,549	48,315	7,416	141,280
5	Loans written off	-	-	-	-
6	**Closing Balance**	**2,608,025**	**726,144**	**179,653**	**3,513,822**
7	Total Provisions	20,015	34,931	112,652	167,598

BankDhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2021

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach:

1) The Bank has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. Similar convention has been applied for Maisarah as well.

2) The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is RO 270.596 million. All other credit exposures of Corporate and Retail are assigned 100% risk weight (except mortgage loans, where valuation of the mortgaged house property is not older than 3 years, are assigned 35% risk weight and 75% for SME borrowers).

Quantitative Disclosure

The total exposure after risk mitigation subject to Standardized Approach as at 31 December 2021 is as follows:

Sl. No.	Risk bucket	0% RO' 000	1% RO' 000	5% RO' 000	20% RO' 000	35% RO' 000	50% RO' 000	75% RO' 000	100% RO' 000	150% RO' 000	300% RO' 000	Total RO' 000
1	Sovereigns (Rated)	656,437	-	-	-	-	-	-	-	-	-	656,437
2	Banks (Rated)	-	-	-	57,490	-	19,143	-	49,614	-	-	126,247
3	Corporate	247,028	-	-	-	-	-	-	1,809,404	-	17,698	2,074,130
4	SME	-	-	-	-	-	-	67,796	-	-	121	67,917
5	Retail	2,592	-	-	-	-	-	-	651,800	-	-	654,392
6	Claims secured by residential property	-	-	-	-	501,403	-	-	35,491	-	-	536,894
7	Past due loans	-	-	-	-	-	-	-	179,653	-	-	179,653
8	Other assets	-	-	-	-	-	-	-	139,696	-	-	139,696
9	Un-drawn exposure	-	-	-	-	678	-	964	209,450	-	529	211,621
10	Derivative	-	1,358,558	120,537	-	-	-	-	2,387	-	-	1,481,482
11	Non funded-Bank	-	-	-	-	-	-	-	82,533	-	-	82,533
12	Non funded-Customers	20,976	-	-	7,021	-	119,798	1,028	221,889	-	-	370,712
13	Non funded-Sovereign	122	-	-	-	-	-	-	-	-	-	122
	Total	**927,155**	**1,358,558**	**120,537**	**64,511**	**502,081**	**138,941**	**69,788**	**3,381,917**	**-**	**18,348**	**6,581,836**

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach: (Continued)

3) The Bank also conducts stress tests on portfolio basis at regular intervals to assess the impact of movement in the staging on its profitability and capital adequacy. The same is placed before the Board Risk Committee.

3.4.3 Credit Risk Mitigation (CRM): Disclosures for Standardized approaches:

The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties, shares listed on the Muscat Securities Market (MSM), government bonds, unlisted shares and Bank fixed deposits. However, the Bank's predominant form of eligible collateral as defined by CBO in its guidelines and for capital adequacy computation purposes is in the form of cash, acceptable Bank guarantees and shares listed on the MSM main index.

The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Borrower and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing loan grades (including special mention) and 3 non-performing loan grades. The rating grade indicates the default probability of the borrower's obligation. The Bank has also implemented the facility rating system based on Basel II foundation approach which considers the collateral support, seniority and other structural aspects of the facilities provided.

Bank has also implemented model on Risk Adjusted Return on Capital (RAROC) for conventional banking, which provides the risk based pricing, which refers to a process of identifying risks, understanding them and subsequently pricing them appropriately. It is an important aspect of prudent credit risk management and is essential for maintaining financial discipline while giving loans. It helps in not only identifying, but also understanding the risk and pricing it appropriately. The RAROC system provides a competitive edge to the Bank in improving the quality of the portfolio and also covers the cost of doing business in the form of pricing.

The Bank has strengthened its existing credit risk management systems and is committed to improve it further.

3.4.4 Counterparty Credit Risk

Counterparty Credit Risk (CCR) is the possibility that a customer or trading counterparty will fail to fulfill contractual obligations, and such failure may result in the termination or replacement of the transaction at a loss to the Bank. Such exposures arise primarily in relation to over-the-counter (OTC) derivatives. The majority of CCR exposure is incurred in transactions designed to help our clients manage their interest rate and currency risks.

To measure RWA, BankDhofar uses the Current Exposure Method (CEM), which is the sum of current credit exposure (CCE) and the potential future exposure (PFE). The CCE is the sum of net positive fair values and the PFE is an estimate of the maximum amount of the exposure that could occur over a one year horizon. BankDhofar has a total notional amount of RO 126.267 Mn in OTC derivatives (such as interest rate swap) and risk weighted assets of RO 2.386 Mn as at 31 Dec 2021.

3.4.5 Market Risk:

Market Risk is the risk to the Bank's earnings and capital due to changes in the interest rates, profit rates or prices of securities, foreign exchange and equities. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into interest rate risk, profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.5 Market Risk: (Continued)

Bank has a comprehensive Asset Liability Management (ALM) Policy for conventional entity and Islamic banking and Investment Management Policy for conventional banking which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per Standardized approach of Basel II.

Details of various market risks faced by the Bank are set out below:

1) Interest Rate Risk (IRR) for conventional banking:

Interest rate risk is the risk where changes in market interest rates might adversely affect a Bank's financial condition. The immediate impact (up to one year) of changes in interest rates is on the Net Interest Income (NII) and a long term impact (more than one year) of changing interest rates is on the Bank's networth.

The responsibility of interest rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Bank periodically computes the IRR on the Banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. The impact of IRR on the earnings of the Bank is computed and placed to ALCO on monthly basis. An internal limit has been set up to monitor the impact of Interest rate risk on NII. Similarly, Bank has developed a model to assess the impact of IRR on the Bank's net worth based on duration gap analysis method and an internal limit has also been fixed for the same.

Details relating to re-pricing mismatches and the interest rate risk thereon is monitored by ALCO on periodic basis. In addition, scenario analysis assuming a 200 basis point parallel shift in interest rates and its impact on the interest income and net profit of the Bank are assessed on a quarterly basis and placed to Risk Management Committee of the Board with proposals for corrective action if necessary.

Impact on earnings and economic value of equity due to adverse movement of 100 bps and 200 bps in interest rate in conventional banking is provided as under:

(RO in 000's)

Position as at 31.12.2021 Impact on	+ or – 1%	+ or – 2%
Earnings	7,393	14,786
Economic Value of Equity	42,273	84,546
Impact on earning as a % of NII	8.45%	16.90%
Impact as a % of Bank's Net worth	6%	12%

2) Profit Rate Risk (PRR):

Profit rate risk is the risk that Maisarah will incur a financial loss as a result of mismatch in the Profit rates on assets & Investment Account Holder (IAH). The profit distribution to IAH is based on Profit Sharing Agreements. Therefore, Maisarah is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when Maisarah result does not allow it to distribute profits in line with the market rates.

Maisarah has a 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 the Bank's Asset and Liability Management Committee (ALCO). Maisarah periodically computes the PRR on the Banking book.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.5 Market Risk: (Continued)

3) Foreign Exchange Risk:

Foreign Exchange Risk maybe defined as the risk that a Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency.

The responsibility of management of foreign exchange risk rests with the Treasury department. The Bank has set up internal limit to monitor foreign exchange open positions. Most of the foreign exchange transactions are conducted for corporate customers and mostly are on back to back basis. Bank has also defined various limits for foreign currency borrowing and lending.

The Bank also conducts stress tests to assess the impact of foreign exchange risk on capital adequacy and the same is placed to Board Risk Committee of Board of Directors on regular basis.

4) Commodity Risk

Commodity Risk occurs due to volatility in the prices of the commodities. Presently the Bank has no exposure to the commodity market.

5) Equity Position Risk:

Equity Position risk occurs due to change in the market value of the Bank's portfolio as a result of diminution in the market value of the equity securities. The responsibility of management of equity position risk rests with the Investment Management Department of the Bank. The Bank does not hold trading position in equities in conventional banking and does not hold any position in equities in Maisarah. The Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve. The Bank also conducts regular stress test on equity position risk and assesses its impact on profitability and capital adequacy.

Bank has introduced the Value at Risk (VaR) method in conventional banking for the domestic quoted equity portfolio. Out of total quoted equity portfolio of OMR 1.97 million as on 31.12.2021, VaR works out to OMR 279K at 99% confidence level and 14.16% of the domestic quoted equity portfolio.

6) The Capital Charges:

The capital charge for the entire market risk exposure is computed as per the standardized approach using the duration method and in accordance with the guidelines issued by CBO in its circular BM 1009. The Bank adopts duration method in measuring interest rate risk in respect of debt securities held in trading book. The Bank does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. Foreign exchange risk capital charge is computed on the three month average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank. The capital charge for various components of market risk is presented below:

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.5 Market Risk: (Continued)

Type of risk	RO'000 Amount
Interest Rate Risk	-
Equity Position Risk	-
Commodities Position risk	-
Foreign Exchange position risk	5,148
TOTAL	**5,148**

3.4.6 Liquidity Risk

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

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

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

Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provides the liquidity gap positions to Treasury Department to manage it.

Middle office also undertakes regular stress test that provides the requirement of liquidity over a given time horizon.

The Bank has reconciled the statement of Maturity of Assets and Liabilities with the discussions under IFRS (Refer item no. 32 of the notes to financial statements).

3.4.7 Operational Risk:

Basel Committee on Banking Supervision has defined operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, punitive damages resulting from supervisory actions, as well as private settlements.

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.7 Operational Risk: (Continued)

Bank has a well-defined Operational Risk Management (ORM) policy which inter-alia includes Operational Risk Events, Operational Risk losses and ORM process. Business and Functional units are primarily responsible for taking and managing Operational Risk on a day-to-day basis. Risk Management Division provides guidance and assistance in the identification of risk and in the ongoing operational risk management process. Bank has set up Operational Risk Management Committee to identify, manage, measure, monitor, mitigate and report operational risks. Bank has also formulated a framework for reporting red flags to the Management and to the Board.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires the Bank to provide 15% of the average gross income for the last three years as capital charge for operational risk.

Bank uses various operational risk tools like loss data management (LDM), Key Risk Indicators (KRI), Risk Control and Self-Assessment (RCSA) for effective operational risk management. The system of collecting and collating data on operational risk events has been improved further to build a strong loss data base and to improve control effectiveness. The loss data are being captured using Operational Risk Management System and complete history of the loss data is maintained.

Bank undertakes Risk Control and Self-Assessment exercise by which the inherent risk in various processes of each business unit is identified and control against these risks are assessed for their design and effectiveness. The residual risk (i.e. inherent risk after controls) provides the potential loss amount and based on residual risk, the controls are improved further.

Bank is also identifying and monitoring the Key Risk Indicators (KRIs) for each business unit. Each KRI has a defined threshold limit and an escalation criterion is also attached to it. A breach in threshold of the KRI escalates the risk to the higher authority. All the Operational Risk Management tools are configured in Operational Risk Management System.

4. Liquidity Standards:

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio and net stable funding ratio to CBO with effect from March 2014.

4.1 Liquidity Coverage Ratio (LCR):

This ratio aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. The ratio is calculated as follows:

LCR = Stock of High Quality Liquid Assets / Total Net Cash Outflows over the next 30 calendar days

As per guidelines, the value of the LCR should be minimum 100% on an ongoing basis with effect from 01 January 2019. The Bank is meeting the regulatory limit of LCR as at 31st December 2021 on consolidated basis.

4. Liquidity Standards: (Continued)

4.2 Net Stable Funding Ratio (NSFR):

The net stable funding ratio is designed to ensure that banks rely more on long term funding and they maintain a sound funding structure over a horizon of one year to withstand Bank specific stress events. The ratio aims to reduce over-reliance on short term funding to create long term assets, especially during times of volatile liquidity conditions. The ratio is calculated as follows

Net Stable Funding Ratio = Available Stable Funding (ASF) / Required Stable Funding (RSF) *100

In terms of CBO guidelines, the standard for NSFR has become effective from 1st January 2018, with a minimum ratio of 100%. Presently, the Bank is meeting the regulatory limit of NSFR as at 31st December 2021.

5. Basel III Leverage Ratio

As per CBO guidelines on Leverage Ratio standards, Bank is expected to maintain a leverage ratio of 4.5%. The leverage ratio standard is not applicable to Islamic Banking Window. The Bank's leverage ratio, calculated in accordance with the CBO guidelines for the consolidated entity is as follows:

(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

(Please refer to paragraph 52 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	As at 31st December 2021	As at 31st December 2020
1	Total consolidated assets as per published financial statements	**4,438,786**	4,257,023
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation		
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4	Adjustments for derivative financial instruments	**9,962**	18,942
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)		
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	**296,956**	346,932
7	Other adjustments		
8	Leverage ratio exposure	**4,745,704**	4,622,897

5. Basel III Leverage Ratio: (Continued)

Table 2: Leverage ratio common disclosure template

(Please refer to paragraph 53 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	As at 31st December 2021	As at 31st December 2020
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**4,438,786**	4,257,023
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**4,438,786**	4,257,023
	Derivative Exposures		
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)		
5	Add-on amounts for PFE associated with all derivatives transactions	**9,962**	18,942
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	**-**	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**-**	-
8	(Exempted CCP leg of client-cleared trade exposures)	**-**	-
9	Adjusted effective notional amount of written credit derivatives	**-**	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**-**	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**9,962**	18,942
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**-**	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	-
14	CCR exposure for SFT assets	**-**	-
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**	-
	Other Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**569,225**	661,491
18	(Adjustments for conversion to credit equivalent amounts)	**(272,269)**	(314,559)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**296,956**	346,932
	Capital and total exposures		
20	**Tier 1 capital**	**674,200**	661,017
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**4,745,704**	4,622,897
	Leverage Ratio		
22	**Basel III leverage ratio (%)**	**14.2**	14.3

With reference to CBO BSD/CB/2020/005 the Bank 's leverage ratio (14.2%) without add-back of the incremental Stage 2 ECL is 14.2%

Basel III Capital Disclosure Template

31st/12/2021

	Basel III common disclosure template to be used during the transition of regulatory adjustments		Amount Subject to Pre-Basel III treatment
		(RO '000)	
Common Equity Tier 1 Capital: Instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	395,291.00	
2	Retained Earnings	22,930.00	
3	Accumulated other comprehensive income (and other reserves)	109,526.00	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
	Public Sector capital injections grandfathered until 1 January 2018	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	-	
6	**Common Equity Tier 1 Capital before regulatory adjustments**	527,747.00	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments	5,627.00	
8	Goodwill (net of related tax liability)*	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)*	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	3,420.00	
11	Cash Flow hedge reserve	-	
12	Shortfall of provisions to expected loss	-	
13	Securitization gain on sale (as set out in para 14.9 of CP-1)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross holdings in common equity	-	
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold)	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	
	Regulatory adjustments applied to common equity Tier 1 in respect of amount subject to pre-basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
27	Regulatory adjustments applied to common equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to common equity Tier 1**	9,047.00	
29	**Common Equity Tier 1 capital (CET 1)**	518,700.00	
Additional Tier 1 Capital: Instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	155,500.00	
31	of which: classified as equity under applicable accounting standards	155,500.00	
32	of which: classified as liabilities under applicable accounting standards		
33	Directly issued capital instruments subject to phase out from Additional Tier 1		
34	Additional Tier 1 instruments (and CET 1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT 1)		
35	of which: instruments issued by subsidiaries subject to phase out		
36	**Additional Tier 1 capital before regulatory adjustments**	155,500.00	
Additional Tier 1 Capital: Regulatory Adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross holdings in Additional Tier 1 instruments	-	

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments		Amount Subject to Pre-Basel III treatment
		(RO '000)	
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments	-	
	Regulatory adjustments applied to Additional Tier 1 in respect of amount subject to pre-basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1**	-	
44	**Additional Tier 1 capital (CET 1)**	155,500.00	
45	**Tier 1 capital (T1 = CET 1 + AT 1)**	674,200.00	
Tier 2 capital: Instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2		
48	Tier 2 instruments (and CET 1 and AT 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
49	of which: instruments issued by subsidiaries subject to phase out		
50	Provisions and Cumulative fair value gains on available for sale instruments	39,757.00	
51	**Tier 2 capital before regulatory adjustments**	39,757.00	
Tier 2 capital: Regulatory Adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross holdings in Tier 2 instruments	-	

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments		Amount Subject to Pre-Basel III treatment
		(RO '000)	
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
55	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
	Regulatory adjustments applied to Tier 2 in respect of amount subject to pre-basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
57	**Total Regulatory Adjustments to Tier 2 capital**	-	
58	**Tier 2 Capital (T 2)**	39,757.00	
59	**Total Capital (TC = T 1 + T 2)**	713,957.00	
	Risk Weighted Assets in respect of amounts subject to pre-Basel III treatment		
	of which: (insert name of adjustment)		
	of which: (insert name of adjustment)		
60	**Total Risk Weighted Assets (60a + 60b + 60c)**	4,024,024.00	
60a	of which: Credit Risk Weighted Assets	3,719,641.00	
60b	of which: Market Risk Weighted Assets	64,345.00	
60c	of which: Operational Risk Weighted Assets	240,038.00	
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.89%	
62	Tier 1 (as a percentage of risk weighted assets)	16.75%	
63	Total capital (as a percentage of risk weighted assets)	17.74%	
64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/ D-SIB buffer requirements expressed as a percentage of risk weighted assets)	8.25%	
65	of which: capital conservation buffer requirement	1.25%	

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments		Amount Subject to Pre-Basel III treatment
		(RO '000)	
66	of which: bank specific countercyclical buffer requirement	0.00%	
67	of which: D-SIB/ G-SIB buffer requirements	0.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	4.64%	
National Minima (if different from Basel III)			
69	National common equity Tier 1 minimum ratio (if different from Basel III minimum)	NA	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	NA	
71	National total capital minimum ratio (if different from Basel III minimum)	NA	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	39,757.00	
77	Cap on inclusion of provisions in Tier 2 under standardized approach	46,495.51	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings based approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET 1 instruments subject to phase out arrangements	NA	
81	Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	NA	
82	Current cap on AT 1 instruments subject to phase out arrangements	NA	
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	NA	
84	Current cap on T 2 instruments subject to phase out arrangements	NA	
85	Amount excluded from T 2 due to cap (excess over cap after redemptions and maturities)	NA	

BankDhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2021

	CA Report 1 (For CBO Use only)	RO ' 000
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	527,747
2	Regulatory Adjustments to CET1	9,047
3	CET1	518,700
4	Additional Tier 1 Capital (AT1) before Regulatory Adjustments	155,500
5	Regulatory Adjustments to AT1	-
6	AT1	155,500
7	Tier 1 Capital (7=3+6)	674,200
8	Tier 2 Capital before Regulatory Adjustments	39,757
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	39,757
11	Total Capital (11=7+10)	713,957
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	4,024,024
13	Credit Risk Weighted Assets	3,719,641
14	Market Risk Weighted Assets	64,345
15	Operational Risk Weighted Assets	240,038
16	CET1 (as a percentage of TRWA) (in %) 8.25%	12.89
17	Tier 1 (as a percentage of TRWA) (in %) 10.25%	16.75
18	Total capital (as a percentage of TRWA) (in %) 12.25%	17.74

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DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2021

Consolidated Conventional and Maisarah Islamic Banking

	BankDhofar SAOG Details	31st December-2021 Amount RO ' 000
1	Common Equity Tier 1 capital (CET 1)	518,700
2	Tier I Capital (after supervisory deductions)	674,200
3	Tier II capital (after supervisory deductions & upto eligible limits)	39,757
4	Tier III Capital (upto a limit where Tier II & Tier III does not exceed Tier I)	
5	Of which, Total Eligible Tier III Capital	-
6	**Risk Weighted Assets – Banking Book**	3,719,641
7	**Risk Weighted Assets – Operational Risk**	**240,038**
8	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**3,959,679**
9	Minimum required capital to support RWAs of banking book & operational risk	**435,565**
	1) Minimum required Tier I Capital for banking book & operational risk	395,808
	2) Tier II Capital required for banking book & operational risk	39,757
10	Tier I capital available for supporting Trading Book	278,392
11	Tier II capital available for supporting Trading Book	-
12	**Risk Weighted Assets – Trading Book**	**64,345**
13	Total capital required to support Trading Book	7,078
14	Minimum Tier I capital required for supporting Trading Book	2,017
15	Used Eligible Tier III Capital	-
16	Total Regulatory Capital	713,957
17	Total Risk Weighted Assets – Whole bank	4,024,024
18	Common Equity Tier 1 Ratio	**12.89%**
19	Tier 1 Ratio	**16.75%**
20	Total Capital Adequacy Ratio	**17.74%**
21	Unused but eligible Tier III Capital	
22	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	**4.64%**

BankDhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2021

Capital Adequacy Disclosure

		RO ' 000							Exposure with CRM			RO ' 000
Details		**Drawn Exposure**	**Undrawn Exposure**	**Repo Style**	**OTC Derivative**	**Other OBS**	**Total Exposure**	**Unsecured**	**Pre mitigation**	**Post mitigation**	**Net Exposure**	**RWAs - Standardized Approach**
I. Banking Book												
1) Soverign	carrying 0%	656,437				122	656,559				656,559	-
	carrying 20%											-
	carrying 50%											
	carrying 100%											
	carrying 150%											
	Unrated 100%											
2) MDBs	Carrying 0%											
3) Banks	carrying 0%											
Placement	carrying 20%	57,490					57,490				57,490	11,498
	carrying 50%	19,143					19,143				19,143	9,571
	carrying 100%	49,614				82,533	132,147				132,147	132,147
	carrying 150%											
	Unrated 50%											
4) Corporate	carrying 0%	247,028				20,976	268,004			268,004	268,004	-
	carrying 20%					7,021	7,021	7,021			7,021	7,021
	carrying 50%					119,798	119,798	119,798			119,798	119,798
	carrying 75%		427			1,028	1,455	1,455			1,455	1,091
SME	carrying 75%	67,796	537				68,333	68,333			68,333	51,250
	carrying 100%		93,072			221,889	314,961	314,961			314,961	314,961
	Unrated 100%	1,809,404	57,543				1,866,947	1,866,947			1,866,947	1,866,947
(Mudaraba) SME	carrying 300%	121	14				135	135			135	405
(Mudaraba)	carrying 300%	17,698	515				18,213				18,213	54,639
5) Retail	carrying 0%	2,592					2,592			2,592	2,592	-
	carrying 20%											
	carrying 50%											
	carrying 75%											
	carrying 100%	651,800	56,246				708,046				708,046	708,046
6) Claims secured by residential property												
	carrying 0%											
	carrying 20%											
	carrying 35%	501,403	678				502,081				502,081	175,491
	carrying 100%	35,491	176				35,667				35,667	35,667
7) Claims secured by commercial property												
	carrying 0%											
	carrying 20%											
	carrying 100%		2,413				2,413				2,413	2,413
8) Past Due Loans												
	carrying 0%											
	carrying 20%											
	carrying 150%											
	carrying 100%	179,653					179,653		(112,653)	67,000	67,000	67,000
net prov for past due loans	carrying 50%											
9) Other Assets												
	carrying 0%											
	carrying 20%											
other assets/ investment/ fixed assets	carrying 100%	139,696					139,696				139,696	139,696
	carrying 150%											
10) High Risk Assets												
Securitization tranches rated between BB+ and BB- - 350%												
Venture Capital & Private Equity Investments - 150%												
11) Off-balance Sheet Items												
Forward Bank and Customer	carrying 0%											
Less than 1 Year	carrying 1%				1,358,558		1,358,558				1,358,558	13,586
Above 1 Year	carrying 5%				120,537		120,537				120,537	6,027
	carrying 7.5%				2,387		2,387				2,387	2,387
	carrying 100%											
12) Failed transactions (para 88)												
	From 5 to 15 days after the agreed settlement date (100% RWA)											
	From 16 to 30 days after the agreed settlement date (625% RWA)											
	From 31 to 45 days after the agreed settlement date (937.5% RWA)											
	46 days or more after the agreed settlement date (1250% RWA)											
Total Banking Book		**4,435,366**	**211,621**	**-**	**1,481,482**	**453,367**	**6,581,836**	**2,378,650**	**(112,653)**	**337,596**	**6,469,183**	**3,719,641**

Capital Adequacy Disclosure

	Capital Elements of Capital	31st December-2021 Amount in RO ' 000
	Common Equity Tier 1 Capital: Instruments and reserves	
	Local Banks	
1	Paid - up Capital	299,635
2	Share Premium	95,656
3	Legal reserves	64,538
4	General Reserves (Special Reserve)	16,988
5	Sub-ordinated Loan Reserve	28,000
6	Stock Dividend	(5,993)
7	Retained Earnings	28,923
8	Non -cumulative perpetual preferred stock	
9	Other non-distributable Reserve	
10	Assigned Capital	
11	Capital Deposit	
12	Retained Earnings	
13	Interest free funds from HO	
	Common Equity Tier 1 Capital before regulatory adjustments	527,747
	Common Equity Tier 1 Capital : Regulatory Adjustments	
	Deductions	
14	Goodwill	-
15	Deferred Tax Asset	(3,420)
16	Intangible Assets, including losses, cumulative	-
	unrealized losses recognized directly in equity	(5,627)
17	Reciprocal crossholding of bank capital, artificially	-
	designed to inflate the capital position of the banks	
	Total regulatory adjustments to common equity Tier 1	**(9,047)**

BankDhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2021

Capital Adequacy Disclosure (Continued)

	Capital Elements of Capital	31st December-2021 Amount in RO ' 000
18	Tier I capital after the above deductions	
19	50% of investments in capital of banks and other financial entities, other than reciprocal cross holding of bank capital	
20	50% of Significant minority and majority 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	
21	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	
22	50% of Investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	
	sub-total	-
23	**Common Equity Tier 1 capital (CET 1)**	**518,700**
	Pepercual Capital Tier 1 Capital	155,500
	Total Tier 1 Capital (T1=CET1+AT1)	**674,200**
	Tier II Capital: Instruments and Provisions	
	Directly issued qualifying Tier 2 instruments plus related stock surplus	
	Directly issued capital instruments subject to phase out from Tier 2	
24	Undisclosed reserves	
25	Revaluation Reserves / Cumulative fair value gains or losses on available for sale instruments	649
26	General Loan Loss Provisions / General Loan Loss Reserve	39,108
27	Sub-ordinated Debt	14,000
28	Hybrid Debt Capital Instruments	
29	**Total Tier II Capital before Regulatory adjustment**	**39,757**
	Tier II capital Regulatory Adjustments	
30	Tier III Capital	
31	**Total Regulatory Capital**	**713,957**

BankDhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2021

Risk Weighted Assets – Trading Book

	Details – Risk Weighted Assets – Trading Book	31st December-2021 Amount in RO ' 000
1	Capital Charge on Specific Risk	-
	1) On interest rate related instruments	-
	2) On Equities	-
2	Capital charge on general market risk	-
	1) On interest rate related instruments	-
	2) On Equity	-
	3) On foreign exchange & Gold position	5,148
	4) On Commodities position	-
3	Total Capital Charge for market risks	**5,148**
4	Total Risk Weighted Assets – Trading Book	**64,345**

Risk Weighted Assets – Operational Risk

	Details – Risk Weighted Assets – Operational Risk	Amount
1	Capital Charge for Operational Risk under Basic Indicator Approach	19,203
2	Total Risk Weighted Assets - Operational Risk	240,038

Statement IIa

The components used in the definition of capital disclosure template are provided below:

Reconciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End	As at Period End	
Assets			
Cash & Balances with CBO	251,479.00		
Balances with bank and money at call and short notice	125,098.00		
Investments:	446,216.00		
Of which Held to Maturity			
Out of investments in Held to Maturity:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which Available for Sale			
Out of investments in Available for Sale:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which Held for Trading			
Loans & Advances - Conventional	2,855,580.00		
Of which,			
Loans & Advances to domestic banks			
Loans & Advances to Non Resident Banks - Net			
Loans & Advances to domestic customers			
Loans & Advances to Non Resident Customers for domestic operations			
Loans & Advances to Non Resident Customers for operations abroad			
Loans & Advances to SMEs			
Financing from Islamic Banking Window	490,643.00		

Statement IIa (Continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End	As at Period End	
Fixed Assets	7,797.00		
Other Asset	245,787.00		
Of which,			
Goodwill & Intangible Assets	-		a
Out of which			
Goodwill			
Other Intangibles (excluding MSRs)	12,766.00		
Deferred Tax Assets	3,420.00		
Goodwill on Consolidation			
Debit balance in Profit & Loss Account			
Total Assets	4,438,786.00		
Capital & Liabilities			
Paid up capital	455,135.00		
of which:			
Amount eligible for CET 1	299,635.00		h
Amount eligible for AT1	155,500.00		i
Reserves & Surplus	243,384.00		j
Share Premium	95,656.00		k
Legal Reserve & Special Reserve	81,526.00		l
Special reserve – restructured loans	1,281.00		
Subordinated loan reserve	28,000.00		m

BankDhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2021

Statement IIa (Continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End	As at Period End	
Special reserve Impairment Ifrs9	12,184.00		
Special revaluation reserve investment Ifrs9	(709.00)		
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I)	(3,477.00)	(5,627.00)	n
Retained Earnings (The proposed dividend payment amount is excluded from retained earnings)	28,923.00	22,930.00	o
Total Capital			
Deposits			
Of which,			
Deposit from Banks	460,889.00		
Customer Deposits	2,538,622.00		
Deposit of Islamic Banking Window	437,017.00		
Other deposits (pl specify)			
Borrowings			
Of which,			
From CBO			
From Banks			
Borrowings in the form of bonds, debentures & Sukuks			
Others (Plz specify) (Subordinated Loans)	35,000.00	-	
Other liabilities & provisions	268,739.00		
Of which,			
DTLs related to goodwill			
DTLs related to intangible assets			
Total Liabilities	4,438,786.00		

BankDhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2021

Statement IIB

The components mentioned in above table are mapped to the composition of capital disclosure template, which is provided below:

Table 2c: Common Equity Tier 1 capital: instruments and reserves			
		Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	299,635.00	h
2	Retained earnings	22,930.00	
3	Accumulated other comprehensive income (and other reserves)	205,182.00	k,l,m,o
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory adjustments	527,747.00	
7	Prudential valuation adjustments	5,627.00	n
8	Goodwill (net of related tax liability)	-	a
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)*	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	3,420.00	

BankDhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2021

Annexure III

Main features template for capital instruments

Bank has three types of capital instruments viz., Common Equity Shares, Additional Tier 1 Perpetual bonds and Subordinated Debt. The minimum level of summary disclosure for these regulatory capital instrument issued by the Bank is presented as under:

Common Shares

Disclosure for Main Features of regulatory capital instruments – Common Shares		
1	Issuer	BankDhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	OM0000002549
3	Governing law(s) of the instrument	law of Sultanate of Oman
	Regulatory Treatment	
4	Transitional Basel III rules	Common Equity Tier I
5	Post-transitional Basel III rules	Common Equity Tier I
6	Eligible at solo/ group/ group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	299.635
9	Par Value of Instrument	0.1
10	Accounting Classification	Shareholder's equity
11	Original date of issuance	Common shares have been announced many times. The change in position of common shares during the year has been provided in point 18 of notes to accounts.
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable

Annexure III (Continued)

Disclosure for Main Features of regulatory capital instruments – Common Shares		
Coupons / Dividends		
17	Fixed or floating dividend coupon	No coupon
18	Coupon rate & any related index	Not applicable
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Non viability
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Fully subordinated (Subordinated debt are senior to ordinary shares)
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

Subordinated Loan 1

Disclosure for Main Features of regulatory capital instruments – Subordinated debt		
1	Issuer	BankDhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	Not applicable
3	Governing law(s) of the instrument	law of Sultanate of Oman
	Regulatory Treatment	
4	Transitional Basel III rules	Tier II
5	Post-transitional Basel III rules	Tier II
6	Eligible at solo/ group/ group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Loan
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	RO 35 Mn
9	Par Value of Instrument	RO 35 Mn
10	Accounting Classification	Subordinated Loan
11	Original date of issuance	15-May-17
12	Perpetual or dated	Dated
13	Original Maturity date	15-Nov-22
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
Coupons / Dividends		
17	Fixed or floating dividend coupon	Fixed
18	Coupon rate & any related index	6.25% p.a.
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No

Subordinated Loan 1 (Continued)

Disclosure for Main Features of regulatory capital instruments – Subordinated debt		
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Trigger even means earlier of: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank is of the opinion that a write-off of the Facility is necessary without which the Borrower shall become non-viable; or (b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the borrower would have become non-viable.
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All the depositors & General Creditors
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features (20.4 (2) of CP1 of CBO guidelines)	Not applicable

Subordinated Loan 2

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
1	Issuer	BankDhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	XS1233710380
3	Governing law(s) of the instrument	The Capital Securities (except for Condition on Subordination of the Capital Securities) and any non-contractual obligations arising out of or in connection with the Capital Securities will be governed by the English law. Subordination of the Capital Securities will be governed by the laws of Oman.
	Regulatory Treatment	
4	Transitional Basel III rules	Additional Tier I
5	Post-transitional Basel III rules	Additional Tier I
6	Eligible at solo/ group/ group & solo	Group & Solo
7	Instrument type (types to be specified by each jurisdiction)	Perpetual Tier I Capital Securities
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	USD 300 Mn
9	Par Value of Instrument	USD 300 Mn
10	Accounting Classification	Equity
11	Original date of issuance	27-May-15
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on any interest payment date thereafter subject to the prior consent of the regulatory authority. The Instrument has completed 5 year term in May 2020.
16	Subsequent call dates, if applicable	Any interest payment date means each 27 May and 27 November in each year.

Subordinated Loan 2 (Continued)

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
Coupons / Dividends		
17	Fixed or floating dividend coupon	Floating
18	Coupon rate & any related index	The Tier 1 USD Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. Thereafter the interest rate is to be reset at five year intervals. As specified in the terms and conditions of Tier 1 USD Securities, the interest for the five-year reset period from the First Call Date starting from 27 May 2020 is the aggregate of the initial margin of 5.128 per cent. per annum and the relevant 5-year reset rate (the mid-swap rate for U.S. Dollar swap transactions with a maturity of 5 years). The interest for the five-year reset period is at fixed annual rate of 5.519% from the First Call Date. Interest will be payable semi – annually in arrears and treated as deduction from equity
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable

Subordinated Loan 2 (Continued)

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
30	Write down features	Yes
31	If Write down, write down triggers	Write down will take place in case of a non-viability event that means: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank has determined that the Bank will become non-viable without a write-down; or (b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the Bank will become non-viable.
32	If Write down, full or partial	Full or partial
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior to ordinary shares and subordinate to Tier II instruments like Subordinated Debt
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

Subordinated Loan 3

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
1	Issuer	BankDhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	OM0000007548
3	Governing law(s) of the instrument	The Capital Securities (except for Condition on Subordination of the Capital Securities) and any non-contractual obligations arising out of or in connection with the Capital Securities will be governed by the Oman law.
	Regulatory Treatment	
4	Transitional Basel III rules	Additional Tier I
5	Post-transitional Basel III rules	Additional Tier I
6	Eligible at solo/ group/ group & solo	Group & Solo
7	Instrument type (types to be specified by each jurisdiction)	Perpetual Tier I Capital Securities
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	OMR 40 Mn
9	Par Value of Instrument	OMR 40 Mn
10	Accounting Classification	Equity
11	Original date of issuance	27-Dec-18
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on 27 Dec 2023 or on any interest payment date thereafter subject to the prior consent of the regulatory authority and after giving suitable notice
16	Subsequent call dates, if applicable	Any interest payment date occurring after 27 Dec 2023, means each 27 June and 27 December thereafter, at the option of the Bank.

Subordinated Loan 3 (Continued)

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
Coupons / Dividends		
17	Fixed or floating dividend coupon	Floating
18	Coupon rate & any related index	The Bonds shall bear interest from (and including) the Issue Date to (but excluding) the First Call Date at a rate of 7.5% per annum (Initial Interest Rate) on the outstanding principal amount of the Bonds. The Bonds shall bear interest from each Reset Date to the next Reset Date at the then Relevant 5 Year Reset Rate. Reset date is the First Call Date and every fifth anniversary thereafter.
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertibel into	Not applicable
29	If convertibe, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes

Subordinated Loan 3 (Continued)

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
31	If Write down, write down triggers	Write down will take place in case of a non-viability event that means: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank has determined that the Bank will become non-viable without a write-down; or (b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the Bank will become non-viable.
32	If Write down, full or partial	Full or partial
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior to ordinary shares and subordinate to Tier II instruments like Subordinated Debt
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS

Liquidity Coverage Ratio:

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio (LCR) to the Central Bank of Oman (CBO) with effect from March 2013. The LCR is defined as the proportion of high quality liquid assets to total net cash outflows over the next 30 days. The high quality liquid assets include cash; reserves held with CBO; investment in CBO Certificate of Deposits, CBO Treasury Bills, Government Development Bonds; Sovereign Treasury Bills; and investment in equity listed on Muscat Securities Market. LCR is a measure of adequacy of liquid assets that will enable the Bank to survive an acute stress scenario lasting for 30 days.

As per CBO guidelines, the LCR is to be maintained at a minimum of 100% from 01.01.2019. In compliance with the CBO guidelines, the Bank is meeting the regulatory limit of LCR as at 31th December 2021.

The disclosure for Liquidity Coverage Ratio for BankDhofar consolidated (i.e. conventional entity + Islamic Window entity) is as follows:

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

Sl. No.	BankDhofar Consolidated LCR Disclosure for the Quarter ending: Dec 2021	Total Unweighted Value (average) RO '000	Total Weighted Value (average) RO '000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		469,171.72
Cash Outflows			
2	Retail deposits and deposits customers, from small business customer, of which:	663,599.40	47,907.69
3	Stable deposits	357,092.57	17,257.00
4	Less stable deposits	306,506.83	30,650.68
5	Unsecured wholesale funding, of which:	923,992.84	389,868.99
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	923,992.84	389,868.99
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which	494,107.67	35,016.35
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	494,107.67	35,016.35
14	Other contractual funding obligations	56,108.15	56,108.15
15	Other contingent funding obligations	460,137.93	23,006.90
16	**TOTAL CASH OUTFLOWS**		**551,908.08**
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	478,303.88	198,181.68
19	Other cash inflows	48,339.40	48,339.40
20	**TOTAL CASH INFLOWS**	**526,643.28**	**246,521.08**
			Total Adjusted Value
21	**TOTAL HQLA**		**470,556.54**
22	**TOTAL NET CASH OUTFLOWS**		**305,556.54**
23	**LIQUIDITY COVERAGE RATIO (%)**		**154.09**

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

The above disclosed values for high quality liquid assets, cash outflows and cash inflows are the arithmetic average of the values for the last 12 months.

LCR is computed on a monthly basis and year end position for LCR is 123.54% as at 31.12.2021 (416.90% as at 31.12.2020). The Bank is in compliance of the regulatory limit of LCR as at 31st December 2021, with LCR of 154.09% calculated on weighted average value for the year (2020: 201.47%).

Net Stability Funding Ratio (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 2018, with a minimum ratio of 100% as per the regulatory guidance.

The disclosure for Net Stability Funding Ratio for BankDhofar consolidated (i.e. conventional entity + Islamic Window entity) is as follows:

NSFR disclosures						**Year Ended: Dec-21**
Bannk: Dhofar (consolidated)						**(RO '000)**
		Unweighted value by residual maturity				
Sl. No.	**ASF Item**	**No maturity**	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted Value**
1	Capital:	1,423,345.48	1,423,345.48	-	-	1,423,345.48
2	Regulatory capital	714,742.00				714,742.00
3	Other capital instruments	708,603.48				708,603.48
4	Retail deposits and deposits from small business customers	772,393.19	187,834.40	67,270.23	-	941,773.82
5	Stable deposits	334,189.45	2,724.37	3,601.50		323,489.59
6	Less stable deposits	438,203.74	185,110.03	63,668.73		618,284.22
7	Wholesale funding:	7,584,004.16	7,584,004.16	6,478,405.17	748,494.47	748,888.83
8	Operational deposits	788.71				394.35
9	Other wholesale funding	7,583,215.45	6,478,405.17	3,902,246.89		748,494.47
10	Liabilities with matching interdependent assets					-
11	Other liabilities:					
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	379,365.74				-
14	**Total ASF**					**3,114,008.12**

BankDhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2021

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

NSFR disclosures						Year Ended: Dec-21
Bannk: Dhofar (consolidated)						(RO '000)
		Unweighted value by residual maturity				
Sl. No.	ASF Item	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)					16,219.31
16	Deposits held at other financial institutions for operational purposes	19,950.83				9,975.42
17	Performing loans and securities:	-	239,390.63	849,966.07	2,042,003.52	2,507,117.28
18	Performing loans to financial institutions secured by Level 1 HQLA	-				-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions			25,596.32		12,798.16
20	Performing loans to non-financial corporate clients,loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which		239,390.63	824,369.75		448,870.69
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					
22	Performing residential mortgages, of which:				2,025,577.99	1,721,741.29
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				476,531.44	309,745.44
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities				16,425.53	13,961.70
25	Assets with matching interdependent liabilities					

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

NSFR disclosures						Year Ended: Dec-21
Bannk: Dhofar (consolidated)						(RO '000)
		Unweighted value by residual maturity				
Sl. No.	ASF Item	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
26	Other Assets:	-	-		230,194.26	233,596.17
27	Physical traded commodities, including gold					-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					3,401.90
30	NSFR derivative liabilities before deduction of variation margin posted					-
31	All other assets not included in the above categories				230,194.26	230,194.26
32	Off-balance sheet items					51,552.73
33	**TOTAL RSF**					**2,818,460.89**
34	**NET STABLE FUNDING RATIO (%)**					**110.49%**

The above disclosed values for required stable funding and the available stable funding are the arithmetic average of the values for the last four quarters reflecting average during the year 2021.

NSFR is computed on a monthly basis and year end position of NSFR for BankDhofar (consolidated entity) was at 109.24% as at 31.12.2021 (108.72% as at 31.12.2020).

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENT

31st DECEMBER 2021

Independent auditor's report to the shareholders of Bank Dhofar SAOG

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank Dhofar SAOG (the "Bank") as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matter	• Measurement of expected credit losses

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

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Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Our audit approach (continued)

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Measurement of expected credit losses (ECL)	
The ECL charge for the year ended 31 December 2021 amounted to RO 24.65 million (net of recoveries) and the allowance for ECL as at that date amounted to RO 150.53 million. The Bank makes an allowance for ECL on all of its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financial commitments. The ECL provision represents the directors' best estimate of the credit losses as at the statement of financial position date. We considered the measurement of ECL as a key audit matter as the determination of ECL has a material impact on the financial statements. It also requires the directors to exercise judgement and make complex estimates that impact the size and the timing of the ECL, including: • identifying portfolios of similar financial instruments; • choosing appropriate models and assumptions for the measurement of ECL including Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD); • determining criteria for significant increase in credit risk (SICR) and therefore staging; • assessing the recoverability of Stage 3 financial assets;	We assessed the appropriateness of the methodology to calculate ECL and the adequacy of the ECL as at 31 December 2021. Our testing included: • understanding the Bank's IFRS 9 impairment provisioning policy and comparing it with the requirements of IFRS 9; • obtaining an understanding of and testing the completeness and accuracy of the historical and current data used for the ECL calculation; • obtaining an understanding of and tested the grouping of similar financial assets in the portfolios for the purposes of measuring ECL; • testing a sample of financial assets to determine the appropriateness and application of the staging criteria; • obtaining an understanding of the methodology to identify and calculate individual impairment allowance for Stage 3 exposures and testing a sample of such credit exposures against the methodology; • testing overlays to the ECL model for appropriateness with specific consideration for Covid-19; and • assessing the disclosures made by the directors in the financial statements. We carried out the above procedures in conjunction with our ECL experts who supported us on specific matters including: • testing the IFRS 9 methodology for the ECL calculation and the mathematical accuracy and logical integrity of the ECL model;

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Our audit approach (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
Measurement of expected credit losses (ECL) (continued) • establishing the number and relative weightings of forward-looking scenarios for each type of financial instrument and the associated ECL; • determining overlays to the ECL derived from the model to account for factors that may not have been fully captured by the model; and • determining disclosure requirements in accordance with accounting standards. The uncertainties associated with Covid-19 have increased the degree of judgement required to be exercised in calculating ECL. Specifically, this includes judgements regarding the impact of Covid-19 on the credit quality, forward looking information, including variables used in macroeconomic scenarios and their associated weightings. *Information on credit risk and the Bank's credit risk management is provided in note 32 A. Disclosure of the impairment allowance and the net impairment charge for the year is provided in note 7(vi).*	• testing the reasonableness of historical macroeconomic and forward-looking information and assumptions used by the directors by agreeing to the latest available macro-economic information; • assessing the appropriateness of the PD and LGD and evaluating the reasonableness of the EAD including provisions held against a sample of Stage 3 credit exposures; and • testing and assessing the reasonableness of the Bank's use of scenarios, weightings and discounting.

Other information

The directors are responsible for the other information. The other information comprises the Board of Director's Report; Corporate Governance Statement; Management Discussion and Analysis Report; Disclosure Requirements under Pillar III of Basel II; Maisarah Islamic Banking Services Annual Report 2021 (comprising its financial statements, the Annual Report of Shari'a Supervisory Board, including fatwas; Management Discussion and Analysis Report; and Disclosure Requirements under Pillar III of Basel II), but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report and the Bank's Annual Report and Financial Highlights of last five years and Financial Ratios of last five years, which are expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

pwc

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Other information (continued)

When we read the Bank's Annual Report, Financial Highlights of the last five years and Financial Ratios of the last five years, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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

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

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

Report on other legal and regulatory requirements

Further, as required by the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, we report that the financial statements have been prepared and comply, in all material respects, with those requirements and provisions.

PricewaterhouseCoopers

Mario Portelli
Muscat, Sultanate of Oman
3 March 2022

C.R. No 1230865
PricewaterhouseCoopers LLC

Statement of Financial Position

For the year ended 31 December 2021

2021 USD'000	2020 USD'000		Note	20201 RO'000	2020 RO'000
		Assets			
653,192	542,431	Cash and balances with Central Bank of Oman	5	**251,479**	208,836
1,159,003	1,189,135	Investment securities	8	**446,216**	457,817
324,930	315,642	Loans, advances and financing to banks	6	**125,098**	121,522
7,417,091	7,247,969	Loans, advances and financing to customers (conventional)	7	**2,855,580**	2,790,468
1,274,397	1,233,818	Islamic financing receivables	7	**490,643**	475,020
638,408	458,634	Other assets	11	**245,787**	176,574
8,883	13,873	Deferred tax assets	24	**3,420**	5,341
33,158	30,660	Intangible asset	9	**12,766**	11,804
20,252	25,041	Property and equipment	10	**7,797**	9,641
11,529,314	11,057,203	**Total assets**		**4,438,786**	4,257,023
		Liabilities			
1,197,114	1,173,909	Due to banks	12	**460,889**	451,955
6,593,823	6,462,476	Deposits from customers (conventional)	13	**2,538,622**	2,488,053
1,135,109	969,512	Islamic customers deposits	13	**437,017**	373,262
667,429	499,901	Other liabilities	14	**256,960**	192,462
24,473	46,244	Tax Liabilities	24 (e)	**9,422**	17,804
6,122	6,813	Employee benefit obligations	14 (a)	**2,357**	2,623
90,909	90,909	Subordinated loans	15	**35,000**	35,000
9,714,979	9,249,764	**Total liabilities**		**3,740,267**	3,561,159
		Shareholder's equity			
778,273	778,273	Share capital	16(a)	**299,635**	299,635
248,457	248,457	Share premium	17	**95,656**	95,656
167,631	161,104	Legal reserve	18(a)	**64,538**	62,025
44,124	45,423	Special reserve	18(d)	**16,988**	17,488
3,327	3,327	Special reserve for restructured loans	18(e)	**1,281**	1,281
31,647	31,647	Special Impairment reserve	18(f)	**12,184**	12,184
(1,842)	(1,842)	Special revaluation reserve – Investment	18(g)	**(709)**	(709)
72,727	54,546	Subordinated loan reserve	18(b)	**28,000**	21,000
(9,031)	(6,156)	Investment revaluation reserve	18(c)	**(3,477)**	(2,370)
75,126	88,764	Retained earnings	19	**28,923**	34,174
1,410,439	1,403,543	**Total equity attributable to the equity holders of the Bank**		**543,019**	540,364
403,896	403,896	Perpetual Tier 1 Capital Securities	16 (b)	**155,500**	155,500
1,814,335	1,807,439	**Total equity**		**698,519**	695,864
11,529,314	11,057,203	**Total liabilities and equity**		**4,438,786**	4,257,023
1,478,506	1,718,158	**Contingent liabilities and commitments**	28(a)	**569,225**	661,491
0.47	0.47	**Net assets per share (Rial Omani)**	20	**0.181**	0.180

The financial statements including notes and other explanatory information on pages 138 to 241 were approved and authorised for issue by the Board of Directors on 27 January 2022 and were signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

Independent auditor's report - pages 125 to 129

Statement of Comprehensive Income

For the year ended 31 December 2021

2021 USD'000	2020 USD'000		Note	20201 RO'000	2020 RO'000
449,694	454,400	Interest income	21	**173,132**	174,944
(234,735)	(214,870)	Interest expense	22	**(90,373)**	(82,725)
214,959	239,530	**Net interest income**		**82,759**	92,219
87,242	78,727	Income from Islamic financing / Investments	21	**33,588**	30,310
(36,166)	(38,673)	Unrestricted investment account holders' share of profit and profit expense	22	**(13,924)**	(14,889)
51,076	40,054	**Net income from Islamic financing and investment activities**		**19,664**	15,421
46,509	42,839	Fees and commission income		**17,906**	16,493
(6,387)	(7,543)	Fees and commission expense		**(2,459)**	(2,904)
40,122	35,296	**Net fees and commission income**	29	**15,447**	13,589
22,275	22,764	Other operating income	22(a)	**8,576**	8,764
328,432	337,644	**Operating income**		**126,446**	129,993
(169,488)	(151,714)	Staff and administrative costs	23	**(65,253)**	(58,410)
(18,408)	(17,322)	Depreciation and amortisation	9&10	**(7,087)**	(6,669)
(187,896)	(169,036)	**Operating expenses**		**(72,340)**	(65,079)
(64,029)	(75,299)	Expected credit losses on financial assets	7	**(24,651)**	(28,990)
-	(3)	Bad debts written-off		**-**	(1)
76,507	93,306	**Profit before taxation**		**29,455**	35,923
(11,252)	(13,865)	Income tax expense	24	**(4,332)**	(5,338)
65,255	79,441	**Profit for the year**		**25,123**	30,585
		Other comprehensive (expense)/ income:			
		Items that will not be reclassified to profit or loss			
636	(956)	Movement in fair value reserve (FVOCI equity instrument)	18(c)	**245**	(368)
		Items that are or may be reclassified to profit or loss in subsequent periods:			
(3,512)	(3,571)	Movement in fair value reserves (FVOCI debt instruments)	18(c)	**(1,352)**	(1,375)
(2,876)	(4,527)	Other comprehensive loss for the year		**(1,107)**	(1,743)
62,379	74,914	**Total comprehensive income for the year**		**24,016**	28,842
0.01	0.02	**Earnings per share basic and diluted (Rials Omani)**	25	**0.005**	0.007

The notes on pages 138 to 241 are an integral part of these financial statements.

Independent auditor's report - pages 125 to 129

Statement of Changes in Equity

For the year ended 31 December 2021

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

The notes on pages 138 to 241 are an integral part of these financial statements.

Independent auditor's report - pages 125 to 129

Statement of Changes in Equity

For the year ended 31 December 2021

	Notes	Share capital USD'000	Share premium USD'000	Legal reserve USD'000	Special reserve USD'000	Special reserve restructured Loan USD'000	Special impairment reserve IFRS 9 USD'000	Special revaluation reserve IFRS 9 USD'000	Subordinated loans reserve USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000	Perpetual Tier 1 capital securities USD'000	Total equity USD'000
Balance at 1 January 2021		778,273	248,457	161,104	45,423	3,327	31,647	(1,842)	54,545	(6,156)	88,764	1,403,542	403,896	1,807,438
Profit for the year		-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year:		-	-	-	-	-	-	-	-	-	65,255	65,255	-	65,255
Net changes in fair value reserve		-	-	-	-	-	-	-	-	-	-	-	-	-
- FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	636	-	636	-	636
- FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	(3,512)	-	(3,512)	-	(3,512)
Total comprehensive income for the period		-	-	-	-	-	-	-	-	(2,875)	65,255	62,380	-	62,380
Transfer to special impairment reserve IFRS 9 (net of tax)	18(f) & 7(d)	-	-	-	-	-	-	-	-	-	-	-	-	
Transfer to legal reserve	18(a)	-	-	6,527	-	-	-	-	-	-	(6,527)	-	-	
Transfer to subordinated loan reserve		-	-	-	-	-	-	-	18,182	-	(18,182)	-	-	
	18(b)	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to Retained Earnings	18(d)	-	-	-	(1,299)	-	-	-	-	-	1,299	-	-	
Perpetual Tier 1 capital securities:		-	-	-	-	-	-	-	-	-	-	-	-	-
- Proceeds from issuance		-	-	-	-	-	-	-	-	-	-	-	-	-
- Issuance cost		-	-	-	-	-	-	-	-	-	-	-	-	-
- Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(24,353)	(24,353)	-	(24,353)
Transactions with equity holders recorded directly in equity		-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	35	-	-	-	-	-	-	-	-	-	(31,130)	(31,130)	-	(31,130)
Balances as at 31 December 2021		778,273	248,457	167,631	44,124	3,327	31,647	(1,842)	72,727	(9,031)	75,126	1,410,439	403,896	1,814,335

The notes on pages 138 to 241 are an integral part of these financial statements.

Independent auditor's report - pages 125 to 129

Statement of Changes in Equity

For the year ended 31 December 2020

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

The notes on pages 138 to 241 are an integral part of these financial statements.

Independent auditor's report - pages 125 to 129

Statement of Changes in Equity

For the year ended 31 December 2020

	Notes	Share capital USD'000	Share premium USD'000	Legal reserve USD'000	Special reserve USD'000	Special reserve restructured Loan USD'000	Special impairment reserve IFRS 9 USD'000	Special revaluation reserve IFRS 9 USD'000	Subordinated loans reserve USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000	Perpetual Tier 1 capital securities USD'000	Total equity USD'000
Balance at 1 January 2020		778,273	248,457	153,158	48,021	3,327	12,088	(1,842)	111,364	(1,629)	27,106	1,378,323	403,896	1,782,219
Profit for the period		-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income for the period:		-	-	-	-	-	-	-	-	-	79,442	79,442	-	79,442
Net changes in fair value reserve		-	-	-	-	-	-	-	-	-	-	-	-	-
- FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	(956)	-	(956)	-	(956)
- FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	(3,571)	-	(3,571)	-	(3,571)
Total comprehensive income for the period		-	-	-	-	-	-	-	-	(4,527)	79,442	74,915	-	74,915
Transfer to special impairment reserve IFRS 9 (net of tax)	18(f) & 7(d)	-	-	-	-	-	19,559	-	-	-	(19,558)	-	-	
Transfer to legal reserve	18(a)	-	-	7,946	-	-	-	-	-	-	(7,945)	-	-	
Transfer to subordinated loan reserve		-	-	-	-	-	-	-	18,182	-	(18,182)	-	-	
	18(b)	-	-	-	-	-	-	-	(75,000)	-	75,000	-	-	
Transfer to Retained Earnings	18(d)	-	-	-	(2,598)	-	-	-	-	-	2,597	-	-	
Perpetual Tier 1 capital securities:		-	-	-	-	-	-	-	-	-	-	-	-	-
- Proceeds from issuance		-	-	-	-	-	-	-	-	-	-	-	-	-
- Issuance cost			-	-	-	-	-	-	-	-	-	-	-	-
- Payment towards perpetual additional Tier 1 coupon			-	-	-	-	-	-	-	-	(26,348)	(26,348)	-	(26,348)
Transactions with equity holders recorded directly in equity		-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	35	-	-	-	-	-	-	-	-	-	(23,348)	(23,348)	-	(23,348)
Balances as at 31 December 2020		778,273	248,457	161,104	45,423	3,327	31,647	(1,842)	54,546	(6,156)	88,764	1,403,543	403,896	1,807,439

The notes on pages 138 to 241 are an integral part of these financial statements.

Independent auditor's report - pages 125 to 129

Statement of Cash Flows

For the year ended 31 December 2021

2021 USD'000	2020 USD'000		Note	20201 RO'000	2020 RO'000
		CASH FLOWS FROM OPERATING ACTIVITIES			
76,507	93,307	Profit for the year before taxation		**29,455**	35,923
		Adjustment for:			
18,408	18,353	Depreciation and amortisation	9 &10	**7,087**	7,066
64,029	75,301	Net impairment on financial asset	7	**24,651**	28,990
(327)	(577)	Dividend Income	22(b)	**(126)**	(222)
1,223	3,473	End of service benefits provision for the year	14(a)	**471**	1,337
	-	Revaluation loss		**13**	-
-	-	Gain on Sale of property and equipment		**(16)**	-
5,683	6,439	Interest Expense on Subordinated Loans	22	**2,188**	2,479
(5,379)	(296)	Gain on sale of investments		**(2,071)**	(114)
160,144	196,000	**Operating profit before operating assets and liabilities changes**		**61,652**	75,459
		Net increase/(decrease) in:			
23,205	(99,283)	Due to banks		**8,934**	(38,224)
(57,764)	808,501	Due from banks		**(22,239)**	311,273
(272,933)	(601,733)	Loans & advances and financing		**(105,079)**	(231,667)
(182,003)	(220,777)	Other assets		**(70,071)**	(84,999)
296,945	(212,657)	Customer deposits		**114,324**	(81,873)
170,787	163,522	Other liabilities		**65,753**	62,956
138,381	33,571	**Cash used in operations before tax and end of service benefits**		**53,274**	12,925
(28,034)	(8,317)	Taxes paid	24	**(10,793)**	(3,202)
(1,914)	(1,106)	End of service benefits paid	14(a)	**(737)**	(426)
108,433	24,148	**Net cash generated from operating activities**		**41,744**	9,297
		CASH FLOWS FROM INVESTING ACTIVITIES			
(16,112)	(23,421)	Purchase of property and equipment		**(6,203)**	(9,017)
327	577	Dividends received from investment securities		**126**	222
(223,857)	(457,148)	Purchase of investments		**(86,185)**	(176,002)

Statement of Cash Flows

For the year ended 31 December 2021

2021 USD'000	2020 USD'000		Note	20201 RO'000	2020 RO'000
256,436	247,226	Proceeds from sale/maturities of investments		**98,728**	95,182
42	192	Proceeds from sale of property and equipment		**16**	74
16,836	(232,574)	**Net cash generated from /(used in) investing activities**		**6,482**	(89,541)
		CASH FLOWS FROM FINANCING ACTIVITIES			
-	(75,000)	(Repayment) of subordinated loans		**-**	(28,875)
(31,130)	(23,348)	Dividend paid		**(11,985)**	(8,989)
(24,353)	(26,348)	Interest on Tier 1 perpetual bond		**(9,376)**	(10,144)
(5,683)	(6,439)	Interest expense on subordinated loans		**(2,188)**	(2,479)
-	-	Excess of Rights Issue Receipt		**-**	-
(61,166)	(131,135)	**Net cash from financing activities**		**(23,549)**	(50,487)
64,096	(339,561)	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**24,677**	(130,731)
707,860	1,047,421	**Cash and cash equivalents at beginning of the year**		**272,526**	403,257
771,956	707,860	**Cash and cash equivalents at end of the year**		**297,203**	272,526
		Cash and cash equivalents at end of the year			
653,193	542,432	Cash and balances with Central Bank of Oman	5	**251,479**	208,836
(1,299)	(1,299)	Capital deposit with Central Bank of Oman	5	**(500)**	(500)
120,062	166,727	Due from banks with a short term maturity of 3 months or less		**46,224**	64,190
771,956	707,860			**297,203**	272,526

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

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

The notes on pages 138 to 241 are an integral part of these financial statements.

Independent auditor's report - pages 125 to 129

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

2. BASIS OF PREPARATION (continued)

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

The following amendments became effective from 1 January 2021:

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION (continued)

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

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

Effect of IBOR reform

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

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

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

2. BASIS OF PREPARATION (continued)

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency transactions

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

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

3.2 Financial assets and liabilities

3.2.1 Recognition and initial measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification

(a) Financial assets

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

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

Financial assets measured at amortised cost

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

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

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

Financial assets measured at fair value through other comprehensive income

1) Debt Instruments

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

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

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

2) Equity Instruments

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

Financial assets measured at fair value through profit or loss

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification (continued)

(a) Financial assets (continued)

Business model assessment

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification (continued)

(a) Financial assets (continued)

Financial guarantee contracts and loan commitments

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

Loans & advances and financing receivables

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

3.2.3 De-recognition

Financial assets

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

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

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

Financial liabilities

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

3.2.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.4 Modifications of financial assets and financial liabilities (continued)

Financial assets (continued)

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

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

Financial liabilities

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

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

3.2.5 Offsetting

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

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

3.2.6 Amortised cost measurement

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

3.2.7 Fair value measurement

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.7 Fair value measurement (continued)

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.

3.2.8 Designation at fair value through profit or loss

Financial assets

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

Financial liabilities

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

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

3.3 Allowance for expected credit losses

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

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

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

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

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

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

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

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

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

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

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

Details of these statistical parameters/inputs are as follows:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

Details of these statistical parameters/inputs are as follows: (continued)

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

(a) Measurement of ECL

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

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

However for unfunded exposures, ECL is measured as follows:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

(b) Restructured financial assets

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

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

(c) Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past due event;

- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise; or

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

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

- The market's assessment of creditworthiness as reflected in the bond yields;

- The rating agencies' assessments of creditworthiness;

- The country's ability to access the capital markets for new debt issuance; and

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

(d) Forward-looking information

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

(e) Macroeconomic factors

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

(f) Assessment of significant increase in credit risk

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

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

(g) Definition of default

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

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

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

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

- Qualitative – e.g. breaches of covenant;
- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

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

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

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

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

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

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

(i) Write-off

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

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

3.4 Cash and cash equivalents

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Due from banks

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

3.6 Property and equipment

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

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

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

	Year
Buildings	7 - 25
Furniture and fixtures	3 - 7
Motor vehicles	3 - 5
Computer equipment	4

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

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

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

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

3.7 Collateral pending sale

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

3.8 Intangible assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Deposits

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

3.10 Income tax

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

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

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

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

3.11 Fiduciary assets

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

3.12 Acceptances

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

3.13 Sale and repurchase agreements

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

3.15 Leases

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

3.16 Employee benefits

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Financial guarantees contracts

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

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

3.18 Borrowings

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

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

3.19 Dividend on ordinary shares

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

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

3.20 Directors' remuneration

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

3.21 Revenue and expense recognition

1. Interest income and expense

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Revenue and expense recognition (continued)

1. Interest income and expense (continued)

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

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

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

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

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

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

2. Fees and commission income

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

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

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

Transaction services

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

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

Trade services

The services cover issuance of letter of credit or guarantee, negotiations and other trade transactions.

Trade services fees are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Revenue and expense recognition (continued)

2. Fees and commission income (continued)

Syndication and other loan related services

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

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

Advisory and asset management services

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

3.22 Dividends

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

3.23 Provisions

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

3.24 Segment reporting

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

3.25 Earnings per share

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

3.26 Perpetual Tier 1 capital securities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

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

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

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

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

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

4.2 Taxes

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

Refer to note 24 for disclosures related to income taxes.

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

4.3 Modification of financial assets

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

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

4.4 Classification of the Equity Tier 1 instrument under IAS 32

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

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

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

4.5 Determination of lease term under IFRS 16

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

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

4.5 Determination of lease term under IFRS 16 (continued)

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

5. Cash and balances with the Central Bank of Oman

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

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

6. Loans, advances and financing to banks

At Amortised Cost

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

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

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

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

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

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

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

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

	2021 RO'000	2020 RO'000
(c) The movement in the allowance for expected credit losses is analysed below:		
1. Allowance for loans for expected credit losses (conventional and Islamic)		
1 January	**119,568**	94,078
Allowance for the year	**34,636**	39,207
Recoveries to statement of comprehensive income during the year	**(10,294)**	(8,409)
Written off during the year	**(6,429)**	(5,308)
31 December	**137,481**	119,568
2. Reserved interest		
1 January	**24,719**	24,169
Reserved during the year	**11,523**	11,925
Recoveries to statement of comprehensive income during the year	**(2,048)**	(2,137)
Written-off during the year	**(4,077)**	(9,238)
31 December	**30,117**	24,719

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

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

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

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

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

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

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

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

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

At 31 December 2021 RO'000

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

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

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

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

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

At 31 December 2020 RO'000

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

* Net of provision and reserve interest as per CBO norms

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

(d) Restructured Loans

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

At 31 December 2021 RO'000

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

* Net of provision and reserve interest as per CBO norms

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

(d) Restructured Loans (continued)

At 31 December 2020 RO'000

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

* Net of provision and reserve interest as per CBO norms

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

(d) Restructured Loans (continued)

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

At 31 December 2020 RO'000

Asset Classification as per CBO Norms 31 December 2021	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)
Corporate	Stage 1	55,692	835	438	(397)	54,857	55,254
	Stage 2	80,406	5,226	8,322	3,096	75,180	72,084
	Stage 3	-	-	-	-	-	-
Subtotal		136,098	6,062	8,760	2,699	130,036	127,338
SME	Stage 1	-	-	-	-	-	-
	Stage 2	1,127	73	97	24	1,054	1,030
	Stage 3	-	-	-	-	-	-
Subtotal		1,127	73	97	24	1,054	1,030
Total (31 December 2021)	Stage 1	55,692	835	438	(397)	54,857	55,254
	Stage 2	81,533	5,300	8,419	3,120	76,233	73,114
	Stage 3	-	-	-	-	-	-
Total		137,225	6,135	8,857	2,722	131,090	128,368

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

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

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

Note 1: Excluding Interest Reserve of RO 30.12 million.

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

4. Allowance for expected credit losses charge and provisions held 2021 (continued)

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

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

5. Special impairment reserve

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

Impairment charge and provisions held 2020

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

Note 1: Excluding Interest Reserve of RO 24.72 million.

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

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

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

5. Special impairment reserve (continued)

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

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

Movement of Provision for the year ended 31 December 2020

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

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

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

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

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

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

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

RO'000

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

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

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

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

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

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

RO'000

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

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

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

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

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

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

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

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

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

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

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

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

7. Classification of financial assets and financial liabilities

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

RO'000

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

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

RO'000

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

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

8. Investment securities

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

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

8. Investment securities (continued)

8. 1 Categories of investments by measurement

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

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

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

The movements in investment securities are summarised as follows:

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

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

8. Investment securities (continued)

8. 1 Categories of investments by measurement (continued)

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

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

The movements in investment securities are summarised as follows:

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

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

9. Intangible asset

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

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

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

10. Property and equipment

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

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

11. Other assets

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

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

12. Due to banks

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

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

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

13. Deposits from customers – Conventional Banking

	2021 RO'000	2020 RO'000
Current accounts	**754,317**	612,720
Savings accounts	**485,352**	487,924
Time and certificate of deposits	**1,287,917**	1,375,215
Margin accounts	**11,036**	12,194
	2,538,622	2,488,053

13. Deposits from customers – Conventional Banking (continued)

Islamic customers deposits

	2021 RO'000	2020 RO'000
Current accounts	**153,436**	99,014
Savings accounts	**64,443**	53,456
Time deposits	**219,138**	220,792
	437,017	373,262

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

14. Other liabilities

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

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

(1) Employee benefit obligations

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

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

15. Subordinated loans

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

	2021 RO'000	2020 RO'000
Subordinated loan - RO (1) & (2)	**35,000**	35,000

1. In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenor of 66 months. These facilities carry a fixed rate of interest, payable half yearly and the principal being repaid on maturity.

2. Details regarding movement in subordinated loan reserve are set out in note 18(b) in Notes to the financial statements.

16.(a) Share capital

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

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

Shareholders

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

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

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

16.(b) Perpetual Tier 1 Capital Securities

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

Tier 1 USD Securities

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

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

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

Tier 1 RO Securities

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

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

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

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

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

17. Share premium

1. In 2018, the Bank issued 361,842,105 ordinary shares by way of rights issue, a share premium of RO 0.050 per share, resulting in an increase of share capital and share premium by RO 36.18 million and RO 18.09 million, respectively.
2. In 2017, the Bank issued 216,216,216 shares by way of rights issue at a premium of RO 0.083 resulting in increase of share capital and share premium by RO 21.62 million and RO 17.95 million, respectively.
3. In 2016, the Bank issued 200,000,000 shares by way of rights issue at a premium of RO. 0.098 resulting in increase of share capital and share premium by RO 20 million and RO 19.60 million, respectively.
4. In 2011, the shareholders of the Bank in the annual general meeting approved the issuance of 20.2% bonus shares amounting to RO 18.49 million (184,878,143 shares of par value RO 0.100 each) from the share premium account.
5. In 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in increase of share capital and share premium by RO 17.69 million and RO 53.08 million, respectively.
6. In 2003, pursuant to the "merger agreement", the Bank has issued 6,681,818 shares of RO 1 each to erstwhile shareholders of Majan International Bank at a premium of RO 5.4 million. This is available for distribution.

18. Reserves

(1) Legal reserve

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

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

(2) Subordinated loans reserve

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

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

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

18. Reserves (continued)

(3) Investment revaluation reserve

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

The movement in the investment revaluation reserve is analysed below:

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

(4) Special reserve

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

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

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

(5) Special reserve for restructured loans

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

(6) Special Impairment reserve – net of tax

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

(7) Special investment revaluation reserve

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

19. Retained earnings

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

20. Net assets per share

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

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

21. Interest income / Income from Islamic financing and Investments

	2021 RO'000	2020 RO'000
Conventional Banking		
Loans and advances	**149,964**	149,621
Due from banks	**5,199**	8,478
Investments	**17,969**	16,845
Total	**173,132**	174,944
Islamic Banking		
Islamic financing receivables	**28,946**	26,983
Islamic due from banks	**73**	23
Investments	**4,569**	3,304
Total	**33,588**	30,310

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

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

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

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

	2021 RO'000	2020 RO'000
(1) Other operating income		
Foreign exchange	**5,088**	6,841
Investment income 22 (b)	**2,197**	336
Miscellaneous income	**1,291**	1,587
	8,576	8,764
(2) Investment income by measurement category		
Dividend income	**126**	222
Gain on disposals of investments – FVOCI	**2,025**	114
Gain on disposals of investments – FVTPL	**46**	-
	2,197	336

23. Staff and administrative costs

	2021 RO'000	2020 RO'000
(1) Staff costs		
Salaries and allowances	**33,398**	35,026
Other personnel costs	**8,388**	2,489
Social insurance contribution	**2,544**	2,604
Non-Omani employees terminal benefit	**471**	1,337
	44,801	41,456
At 31 December 2021, the Bank had 1,481 employees (2020: 1,522 employees).		
(2) Administrative costs		
Occupancy costs	**3,416**	3,388
Operating and administration cost	**15,858**	12,734
Impairment of goodwill	**-**	397
Others	**1,178**	435
	20,452	16,954
Total staff and administrative cost	**65,253**	58,410

24. Income tax

(1) Income tax expense:

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

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

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

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

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

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

24. Income tax (continued)

(3) The deferred tax asset/liability has been recognised at the effective tax rate of 15% (2020 - 15%).

Deferred tax asset / (liability) in the statement of financial position and the deferred tax credit / (charge) in the statement of comprehensive income relates to the tax effect of provisions, Allowance for expected credit losses on financial instruments, change in fair value of FVOCI investment and derivatives, accelerated depreciation and expenses disallowed which give rise to deferred tax asset are as follows:

Particulars	Opening RO '000	Recognised in SCI	2021 RO '000	Recognised in SOCE
Property and equipment	**(727)**	**2**	**(725)**	**-**
Provision for legal claim	**180**	**196**	**376**	**-**
Right of Use Asset and Finance Liability	**(119)**	**67**	**(52)**	**-**
Allowance for expected credit losses on financial instruments	**5,977**	**(2,192)**	**3,785**	**-**
Investment revaluation (Non listed)	**121**	**-**	**121**	**-**
Fair value derivatives	**(96)**	**-**	**(96)**	**-**
Special impairment reserve for loan loss IFRS 9	**-**	**-**	**-**	**2,151**
investment carried at fair value through profit and loss account	**5**	**7**	**12**	**-**
Net deferred tax asset/(liability)	**5,341**	**(1,920)**	**3,421**	**2,151**

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

24. Income tax (continued)

(4) Status of previous year returns:

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

(5) Tax liability

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

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

25. Earnings per share (basic and diluted)

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

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

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

26. Related parties transactions

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

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

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

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

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

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

26. Related parties transactions (continued)

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

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

27. Single borrower and senior members

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

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

28. Contingent liabilities and commitments

(1) Credit related contingent items

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

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

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

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

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

(2) Capital and investment commitments

	2021 RO'000	2020 RO'000
Contractual commitments for property and equipment/computer software	**4,927**	9,426

(3) Legal proceedings

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

29. Disaggregation of net fees and commission income

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

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

30. Derivative financial instruments

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

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

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

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

31 December 2021						RO 000's
				Notional amounts by term to maturity		
	Positive fair value	Negative Fair Value	Notional amount total	within 3 months	4-12 months	> 12 months
Derivatives:						
Interest rate swaps	-	4,310	63,133	-	2,272	60,861
IRS customer	4,310	-	63,133	-	2,272	60,861
Forward purchase contracts	-	743	1,479,094	777,403	581,154	120,537
Forward sales contracts	2,291	-	1,474,966	774,822	580,794	119,350
Total	6,601	5,053	3,080,326	1,552,225	1,166,492	361,609

30. Derivative financial instruments (continued)

31 December 2020						RO 000's
				Notional amounts by term to maturity		
	Positive fair value	Negative Fair Value	Notional amount total	within 3 months	4-12 months	> 12 months
Derivatives:						
Interest rate swaps	-	9,615	185,385	-	-	185,385
IRS customer	9,615	-	185,385	-	-	185,385
Forward purchase contracts	4,749	-	1,029,121	478,011	460,750	90,360
Forward sales contracts	-	907	1,022,345	476,818	456,977	88,550
Total	14,364	10,522	2,422,236	954,829	917,727	549,680

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

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

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

31. Fair value information

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

Fair value measurements recognised in the statement of financial position

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

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

31. Fair value information (continued)

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

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

31. Fair value information (continued)

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

Level 3 movement – 31 December 2021

	FVPL RO'000	FVOCI RO'000	2021 RO'000
At 1 January	**1,697**	**573**	**2,270**
Total gains	**127**	**52**	**179**
Purchases	**5**	**-**	**5**
Sales	**(288)**	**-**	**(288)**
Transfer from level 3	**-**	**-**	**-**
At 31 December	**1,541**	**625**	**2,166**

Level 3 movement – 31 December 2020

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

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

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

Transfer between level 1 and level 2

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

32. Financial risk management

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

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

1. Credit Risk

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

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

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

Impact of COVID-19

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

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

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

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

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

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

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

Other receivables of the Bank are generally short term in nature and with history of insignificant default and hence ECL

Impact from this balance considered to be immaterial.

Sensitivity of ECL to future economic conditions

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

2021	ECL for				Total
Scenarios	Loans and advances (RO 000's)	Islamic financing receivables (RO 000's)	Investment securities carried at amortised cost (RO 000's)	Other Portfolio (RO 000's)	(RO 000's)
Scenarios currently used by Bank	**126,879**	**10,602**	**247**	**12,805**	**150,533**
100% Base case scenario	**133,016**	**10,154**	**255**	**9,961**	**153,386**
100% Downside scenario	**150,753**	**12,585**	**397**	**14,191**	**177,926**

32. Financial risk management (continued)

1. Credit Risk (continued)

2020	ECL for				Total
Scenarios	Loans and advances (RO 000's)	Islamic financing receivables (RO 000's)	Investment securities carried at amortised cost (RO 000's)	Other Portfolio (RO 000's)	(RO 000's)
Scenarios currently used by Bank	111,035	8,533	238	12,506	132,312
100% Base case scenario	113,510	8,911	258	12,609	135,288
100% Downside scenario	122,356	10,156	330	12,964	145,806

Impact from this balance considered to be immaterial. (continued)

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

Accounting for modification loss

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

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

Analysis on the deferment benefits used by the Borrowers

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

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

2021 Amount RO 000's

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

2020 Amount RO 000's

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

*Category 1 are customers with regular salary

** Category 2 are customers with irregular salary

32. Financial risk management (continued)

1. Credit Risk (continued)

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

2021

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

32. Financial risk management (continued)

1. Credit Risk (continued)

Sector-wise analysis of corporate borrowers benefiting from deferred payments: (continued)

2020

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

32. Financial risk management (continued)

1. Credit Risk (continued)

Impact on the Capital Adequacy:

Besides, the bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. As per the Prudential filter, the Tier II capital of the Bank will comprise of Stage 1 ECL plus portion of Stage 2 ECL. Such portion shall be estimated as under:

- The Stage 2 ECL amount as on 31 December 2019 is considered "Base Year Amount" and will continue to get earlier phase out arrangement (i.e. 40% for 2020 and 20% for 2021) and

- The incremental ECL (i.e. Stage 2 ECL at a respective reporting date minus stage 2 ECL as at 31 December 2019) may be considered for Tier 2 capital subject to incremental reduction of 20% ECL every year (80% in 2021).

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

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

Liquidity and Market Risk:

CBO also issued guidelines to support liquidity in Oman banking sector, which inter-alia include reducing the interest rate on repo operations by 75 basis points, increasing the tenor of repo operations up to a maximum of three months, decreasing interest rate on discounting of government treasury bills by 100 basis points, reducing the interest rate on foreign currency swap operations by 50 basis points and increasing the tenor of swap facility up to a maximum period of six months. As at 31 December 2021, Bank is not availing any such liquidity support and the liquidity and funding position of the Bank remain well placed to absorb and manage the impacts of this disruption.

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure

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

1. Geographical concentrations

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

2. Customer concentrations

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

3. Economic sector concentrations

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

4. Gross credit exposure

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

5. Geographical distribution of funded exposures:

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

6. Industry type distribution of exposures by major types of credit exposures:

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

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

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

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

8. Credit Quality Analysis

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

8. Credit Quality Analysis (continuted)

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

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

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

9. Inputs, assumptions and techniques used for estimating impairment

1. Significant increase in credit risk (SICR)

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

9. Inputs, assumptions and techniques used for estimating impairment (continued)

Incorporation of forward looking information

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

2. Economic variable assumptions

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

31 December 2021

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

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

31 December 20220

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

9. Inputs, assumptions and techniques used for estimating impairment (continued)

2. Economic variable assumptions (continued)

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

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

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

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

3. Sensitivity analysis

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

Retail portfolios

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

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

Wholesale portfolios

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

10. Loss Allowance

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

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

11. Credit Quality

Credit risk grading

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

11. Credit Quality (continued)

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

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

2021:

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

11. Credit Quality (continued)

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

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

11. Credit Quality (continued)

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

* includes Corporate & SME , Retail and Banks

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

* includes Corporate & SME , Retail and Banks

2020:

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

11. Credit Quality (continued)

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

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

11. Credit Quality (continued)

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

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

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

* includes Corporate & SME , Retail and Banks

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

* includes Corporate & SME , Retail and Banks

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

12. Distribution of impaired loans

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

12. Distribution of impaired loans (continued)

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

12. Distribution of impaired loans (continued)

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

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

Analysis of impairment and collateral

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

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

32. Financial risk management (continued)

2. Liquidity risk

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

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

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

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

32. Financial risk management (continued)

2. Liquidity risk (continued)

Maturity profile of assets and liabilities

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

32. Financial risk management (continued)

2. Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

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

32. Financial risk management (continued)

2. Liquidity risk (continued)

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

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

3. Market risk

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

1. Currency risk

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

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

Foreign currency exposures

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

2. Interest rate risk

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

32. Financial risk management (continued)

3. Market risk (continued)

2. Interest rate risk (continued)

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

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

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

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

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

Interest rate sensitivity gap

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

32. Financial risk management (continued)

3. Market risk (continued)

2. Interest rate risk

Interest rate sensitivity gap (continued)

	Effective average profit rates %	Due on demand and within 30 days RO 000	Due within 1 to 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
31 December 2021								
Cash and balances with Central Bank of Oman	0.1%	-	-	-	-	-	251,479	251,479
Investments - FVTPL		-	-	-	-	-	2,823	2,823
Investment – FVOCI Equity		-	-	-	-	-	2,490	2,490
Investment FVOCI – Debt Instrument	6.5%	-	10	-	89,628	27,115	-	116,753
Investments at amortized cost	4.8%	-	-	-	213,935	110,215	-	324,150
Loans, advances and financing to banks	2.7%	19,250	70,024	10,000	-	-	25,824	125,098
Loans, advances and financing to customers	5.4%	499,163	1,229,318	391,657	421,249	804,836	-	3,346,223
Other assets		-	-	181,098	-	-	64,689	245,787
Total assets		518,413	1,299,352	582,755	724,812	942,166	347,305	4,414,803
Due to banks	2.3%	147,610	287,980	9,625	15,400	-	274	460,889
Deposits from customers	3.2%	148,475	455,108	887,977	553,278	509,364	421,437	2,975,639
Other liabilities		-	-	181,098	-	-	87,641	268,739
Subordinated loan	6.2%	-	-	35,000	-	-	-	35,000
Total liabilities		296,085	743,088	1,113,700	568,678	509,364	509,352	3,740,267
On-balance sheet gap		222,327	556,264	(530,945)	156,134	432,802	(162,047)	
Cumulative interest sensitivity gap		222,327	778,591	247,646	403,780	836,582	674,535	

32. Financial risk management (continued)

3. Market risk (continued)

2. Interest rate risk

Interest rate sensitivity gap (continued)

	Effective average profit rates %	Due on demand and within 30 days RO 000	Due within 1 to 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
31 December 2020								
Cash and balances with Central Bank of Oman	0.10%	105,875	-	-	-	500	102,461	208,836
Loans, advances and financing to banks	3.50%	41,226	79,160	-	-	-	1,136	121,522
Loans, advances and financing to customers	5.70%	493,508	1,451,032	91,829	640,631	588,488	-	3,265,488
Investments - FVTPL		-	-	-	-	-	4,120	4,120
Investment – FVOCI Equity		-	-	-	-	-	3,276	3,276
Investment FVOCI – Debt Instrument	6.50%	-	-	-	40,060	74,759	-	114,819
Investments at amortized cost	4.80%	30,000	6,047	-	207,779	91,776	-	335,602
Other assets		-	-	-	-	-	176,574	176,574
Total assets		**670,609**	**1,536,239**	**91,829**	**888,470**	**755,523**	**287,567**	**4,230,237**
Due to banks	2.50%	61,310	131,670	47,225	211,750	-	-	451,955
Deposits from customers	3.00%	226,779	505,383	1,110,342	505,018	142,344	371,449	2,861,315
Other liabilities		-	-	-	-	-	212,889	212,889
Subordinated loan	6.10%	-	-	-	35,000	-	-	35,000
Total liabilities		**288,089**	**637,053**	**1,157,567**	**751,768**	**142,344**	**584,338**	**3,561,159**
On-balance sheet gap		382,520	899,186	(1,065,738)	136,702	613,179	(296,771)	
Cumulative interest sensitivity gap		382,520	1,281,706	215,968	352,670	965,849	669,078	

3. Investment Price risk

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

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

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

32. Financial risk management (continued)

3. Market risk (continued)

3. Investment Price risk (continued)

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

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

4. Operational risk

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

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

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

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

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

32. Financial risk management (continued)

4. Operational risk (continued)

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

Business Continuity Planning (BCP)

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

- Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.
- The Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.
- The Bank-wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipment's, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.
- For the cause of human safety and security, fire drill exercises are also conducted in Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators /floor leaders /fire wardens are tested and security procedures are reinforced.
- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.
- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

Internal Capital Adequacy Assessment Process (ICAAP):

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

32. Financial risk management (continued)

4. Operational risk (continued)

Business Continuity Planning (BCP) (continued)

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

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

33. Capital risk management

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

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

33. Capital risk management (continued)

Capital adequacy

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

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

34. Segmental information

The Bank is organised into three main business segments:

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

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

3) Treasury and investments

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

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

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

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

34. Segmental information (continued)

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

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

35. Dividends – proposed and declared

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

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

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

36. Leases

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

1. Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

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

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

2. Amounts recognised in the statement of comprehensive income

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

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

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

3. The following table shows the maturity analysis of lease liabilities:

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

4. The Bank's leasing activities and how these are accounted for

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

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

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

36. Leases (continued)

4. The Bank's leasing activities and how these are accounted for (continued)

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

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

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Bank:

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

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

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

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

The right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

5. Extension and termination options

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

Critical judgements in determining the lease term

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

36. Leases (continued)

5. Extension and termination options (continued)

Critical judgements in determining the lease term (continued)

- For leases of premises, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
  - If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
  - Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in premises leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.=

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

37. Changes to corresponding amounts

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

1. Cash and cash equivalents

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

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

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

37. Changes to corresponding amounts (continued)

2. Intangible assets and deferred tax assets

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

	2020 Revised RO'000	2020 Original RO'000	Changes RO'000
Intangible assets	11,804	-	11,804
Deferred tax assets	5,341	-	5,341
Property and equipment	9,641	21,445	(11,804)
Other assets	176,574	181,915	(5,341)
Total changes			-

These changes did impact other line items in the other primary statements.

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MAISARAH ISLAMIC BANKING SERVICES

مَيْسَــــرة
MAISARAH
للخدمات المصرفية الإسلامية
Islamic Banking Services

MAISARAH ISLAMIC BANKING SERVICES WINDOW OF BANKDHOFAR SAOG

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ANNUAL REPORT OF **SHARI'A SUPERVISORY BOARD**

31st DECEMBER 2021

Report of Shari'a Supervisory Board

To: General Assembly and Board of Directors of Maisarah Islamic Banking Services – BankDhofar (S.A.O.G)

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

All perfect praise be to Allah; and may Allah send blessing and peace upon the noblest of Messengers, our Prophet Muhammad, sallallahu 'alayhi wa sallam, his family and companions.

In compliance with the letter of appointment, we are required to submit the following report for the year ended 31/12/2021:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Maisarah Islamic Banking Services (MIBS) during the year ended on 31/12/2021. We have also conducted our review to form an opinion as to whether the MIBS has complied with Sharia principles and also with the specific Fatawa, rulings and guidelines issued by us.

Maisarah's management is responsible for ensuring that the Maisarah conducts its business in accordance with Sharia principle. It is our responsibility to form an independent opinion, based on our review of the operations of Maisarah, and report to you.

We conducted our review which included examining, on a test basis, of each type of transaction, the relevant documentation and procedure adopted by Maisarah.

We planned and performed our review so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Maisarah has not violated Sharia principles.

In our opinion:

a) The affairs of Maisarah have been carried out in accordance with the rules and principles of Sharia, Central Bank's regulations and guidelines related to Sharia compliance and other rules as well as with specific Fatwa and rulings issued by the SSB from time to time;

b) The contacts, transactions and dealings entered into by the Maisarah during the year ended 2021 that we have reviewed are in compliance with Sharia principles;

c) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Sharia principles;

d) Earnings that have been realized from sources or by means prohibited by Sharia principles have been identified and segregated for disposal to charity.

We have identified the following areas where we believe there is room for further improvement by the management of Maisarah in order to follow truly the letter and spirit of the Sharia and to enhance the public's confidence in Islamic banking in general and the Maisarah in particular:

a) Although Maisarah has focused on training and development of human resources in 2021, however more focus is required for training of new and existing staff in 2022;

b) Public awareness programs and seminars should be conducted to create awareness of Islamic banking;

c) As MIBS operations are expected to increase in 2022, therefore, management should further focus on ensuring highest standard of Sharia compliance;

d) The SSB advises MIBS to actively participate in Sharia compliant social and community activities to fulfill its corporate responsibilities.

We beg Allah the almighty to grant us all the success and straight-forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab
Chairman

Sheikh Dr. Abdullah bin Mubarak Al Abri
Vice Chairman

Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati
Member

Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan
Member

Sheikh Dr. Mohammad Ameen Ali Qattan
Member

Date: January 13, 2022
Place: Muscat, Sultanate of Oman

SHARI'A SUPERVISORY **BOARD MEMBERS**

Name of Chairman: Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab
Basis of Membership: Chairman of Shari'a Supervisory Board
No. of other Directorships held: None

Name of Director:
Sheikh Dr. Abdullah bin Mubarak Al Abri

Basis of Membership:
Member

No. of other Directorships held: None

Name of Director:
Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan

Basis of Membership:
Member

No. of other Directorships held: None

Name of Director:
Sheikh Dr. Mohammed bin Ali bin Mohmoud Al Lawati

Basis of Membership:
Member

No. of other Directorships held: None

Name of Director:
Sheikh Dr. Mohammad Ameen Ali Qattan

Basis of Membership:
Member

No. of other Directorships held: None

MANAGEMENT TEAM

Kamal Hassan Al Maraza
Chief Maisarah Islamic Banking Officer

Mohammed Iqbal Al Balushi
Head of Corporate Services

Nasser Said Al Bahantah
Chief Retail Banking Officer

Fawaz Rajab Al Ojaili
Head of Wholesale Banking

Ismail Jama Bait Ishaq
Chief Financial Officer

Yahya Mohamed Al Sharaiqi
Head of Treasury

Mohsin Shaik
Head of Investment Banking & Capital Market

Abdul Hakim Osman
Head of Shari'a Compliance & Audit

MANAGEMENT DISCUSSION & ANALYSIS REPORT
31st DECEMBER 2021

Maisarah Islamic Banking Services (MIBS)

The Islamic banking window of BankDhofar, Maisarah Islamic Banking Services was launched in 2013 offering superior Islamic banking experience and a wide range of Shariah-compliant range of products and services. Maisarah has grown tremendously over the years due to its continued commitment to providing exceptional Islamic banking services to its customers and fulfillment of long-term goals of its all stakeholders. Maisarah started with 1 branch in 2013 and now operates with a network of 10 branches strategically located across the Sultanate of Oman.

Maisarah Financial performance as at December 2021 and the major units operating under Maisarah is highlighted below:

Maisarah - Financial Performance

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

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

Particulars	RO in Million		
	2021	2020	Growth %
Gross Profit income	**33.59**	30.31	10.82%
Net Financing income (after cost of fund)	**18.43**	15.42	19.52%
Fees, commissions & other income	**1.71**	1.93	-11.40%
Total Operating Income	**20.14**	17.35	16.08%
Total operating costs	**-8.79**	-7.51	-17.04%
Net operating profit / (loss)	**11.35**	9.84	15.35%
Impairment allowance	**-2.43**	-3.33	27.03%
Net profit / (loss) before tax	**8.92**	6.51	37.02%

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

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

A brief analysis of MIBS diverse financing portfolio as at December 31, 2021 is as follows:

Particulars	RO in Million		
	2021	2020	Growth %
Murabaha & Other receivables	**29.22**	23.46	24.54%
Mudaraba financing	**17.82**	13.33	33.68%
Diminishing Musharaka financing	**347.40**	347.78	-0.11%
Ijarah Muntahia Bittamleek	**45.21**	46.4	-2.56%
Credit Card receivable	**0.00**	0.57	-99.89%
Wakala Finance	**61.61**	52.02	18.43%
Gross Financing to customers	**501.26**	483.56	3.66%
Less: Allowance for impairment	**-10.61**	-8.54	24.26%
Net Financing	**490.64**	475.02	3.29%

Customer deposits of Maisarah as at December 31, 2021 comprises of the following:

Particulars	RO in Million		
	2021	2020	Growth %
Current accounts	**22.79**	99.01	-76.98%
Equity of investment account holders	**64.44**	53.46	20.54%
Wakala Deposits	**349.79**	220.79	58.42%
Total customer deposits	**437.02**	373.26	17.08%

MIBS Goals, Objectives & Plans

MIBS Strategic Goals and Objectives include the following:

1) Deliver sustained business performance in all key business measures & metrics
2) Implement Customer Acquisition Strategy to grow our Customer base and market share
3) Implement MIBS Innovation Journey and maximize business impact
4) Develop and implement Digital Banking Strategy to become the Best and the most innovative Islamic Bank in terms of Customer Experience
5) Build and deliver high Performance Culture

Maisarah will continue its innovation Journey that has customer centric approach as a prime objective to ensure customers receives the best experiences while doing business with Maisarah. Furthermore, Maisarah will also focus on achieving operational excellence throughout its operations.

MIBS operational objective for the year 2022 will be:

- Automate business and operations processes to substantially improve services delivery and enhance operational efficiencies
- Develop & implement MIBS Retail Segments and out new products and services to cater the ongoing needs of customers.
- Increasing customer reach through innovative digital channels and digital onboarding
- Be efficient and swift in providing services to customers by improvement in current processes and documentations.
- Develop stronger relationships with its existing and new customer and all other stakeholders by getting closer to them through regular meetups and workshops.

Maisarah Wholesale Banking

In order to continue providing focused financial solutions to its clienteles, Maisarah Wholesale Banking (MIBS WSB) introduced two new segments "Government & Corporate Liabilities" and "Large Corporate" during the year, adding to the fully functional SME & Corporate Banking segments.

MIBS WSB now consists of 5 units, 4 of which are based in Muscat and one based in Salalah with each unit being managed by a dedicated team of highly trained and qualified business professionals providing nationwide coverage.

MIBS WSB offers a wide range of innovative Sharia-compliant products and financial solutions which are customized to suit the financial needs of clients operating in all sectors and segments. The Product offerings continue to be refined based on the ever-changing market conditions and to ensure convenience and ease of use. The existing clientele includes Public and Private Companies, Governments and Quasi-Governmental Entities, and High Net-worth Individuals. Some new products and services are lined up for launch during 2022 which will ensure MIBS WSB remains at the forefront of providing the best services to its clientele.

MIBS WSB continues to strengthen its market position and recorded strong performance during 2020 and 2021. Despite the prevailing economic challenges, the quality of the portfolio remains satisfactory with a strong focus on diversification. MIBS WSB continued to support its clients during the difficult period by continuing to work closely and providing financial support and advisory.

With the improvement in Oil Prices and the announcement of the Government Budget, MIBS WSB is optimistic that the economic scenario will start to show signs of recovery and the pandemic will be fully under control. For MIBS WSB, the year 2022 is a year filled with positivity to increase our presence where market fundamentals have start giving anticipation of stabilization, confidence to mark another strong year. MIBS WSB will continue to work closely with all existing and potential clients to partner with them during the upcoming phase of recovery and growth.

Maisarah Retail Banking Services

Maisarah Retail Banking Division offers a wide range of innovative Sharia-compliant products and financial solutions which are customized to suit the financial needs of the Priority, Affluent and Mass customer segments.

In 2021, Maisarah has achieved a sustained performance and focused on the following objectives:

1) Grew Retail Deposit Portfolio by 23% compared to 2020
2) Grew Retail Low-Cost Deposit by 29.4% compared to 2020
3) Grew and increased New-to-Bank Customers Accounts, Deposit Accounts above last year by 17%.

Looking back and considering the market and the overall economic environment, MIBS delivered a very strong performance across all business lines, this was due primarily to the dedication, devotion, and the commitment of all staff members within MIBS. The business plans to continue with the same drive and focus to deliver yet another successful year in 2022.

In 2022, MIBS Retail Banking focus will be as follows:

1) New-To-Bank Customer Acquisition

2) Increase Low-Cost Deposit Portfolio, to reduce the cost of funding and improve financing yield

3) Prudently grow Financing Portfolio and protect market share

4) Implement Retail Innovation Programs and Projects

Maisarah strives to provide the customers with a great and differentiated customer experience by focusing on their individual needs and delivering their needs in the most efficient and timely manner. To meet the needs of the growing customer base and market share, MIBS has many channels including Branches Distribution Network, Digital Banking and Channels (Internet, Mobile, Electronic Banking (ATMs/CDM), and Customer Engagement Hub. All designed to meet the growing and changing needs of the valued customers.

Through MIBS Innovation Journey, our vision is to meet the customers' needs anytime and anywhere 24/7, so they are fulfilling their banking needs at their convenience and their own way!

To spread the word and the awareness on Islamic banking, Maisarah will continue to double the efforts in the social media awareness programs, support events, conferences and programs and other public initiatives.

MIBS Distribution Network

Currently, Maisarah has a well-established and strategically located distribution network of 10 Branches across major cities and governorates in Muscat (Azaiba, Al Hail, Al Khuwair and Greater Muttrah) Salalah (New Salalah and Saada), Sohar, Birkat Al Mouz, Araqi, and Sur.

The distribution network provides a wide range of innovative shariah-compliant products, solutions and services to the valued customers across the nation. The Branches also play critical role of not only distributing needed products and services but also educating and promoting Shariah complaint banking. Considering the fact that Shariah-compliant banking products are fairly new to the country, MIBS teams in the distribution network are providing valuable education to promote this new banking to continue with drive to increase MIBS share of wallet in the coming years. This contributes in making Islamic banking, which is the fastest growing segment of the Omani banking sector, easily accessible and available to the potential customers in the country.

Therefore, considering the growth potential in the Islamic Banking sector, MIBS plans to grow its market and customer reach by increasing the current distribution network over the next few years based on the strategic priorities and market needs. This will include both physical distribution network of branches and service centers, and digital banking and channels.

Based on market needs, MIBS will continue to innovate its products and services offerings to exceed the customers' expectations by offering market leading solutions to continue selling through the existing customers by word-of-mouth and formal referrals, MIBS understands that customers are the foundation and corner-stone for the continued success.

MIBS will continue to innovate from the point of view of the customer and design the products and services and solutions based on market and segment needs and deliver great customer experience for the valued customers every time and at every touch point.

Investment Banking & Capital Markets

Investment Banking and Capital Markets ("IBCM") focus, besides investments, is to create and distribute Shariah-compliant investment products in both equity and debt markets. The department provides comprehensive range of services such as financial advisory, corporate finance, deal structuring mainly in Sukuk and equity placements.

IBCM continues to strengthen its position in the Islamic capital markets and recorded strong performance in the year 2021.

Maisarah's IBCM's Proprietary Investment performance has been outstanding. The investment portfolio has performed well, despite the slowdown in the economy due to the ongoing covid-19 situation.

With the recovery in oil prices and the announcement of the Government Budget, IBCM is optimistic that the economic scenario will start to show signs of recovery and the pandemic will be fully under control.

For 2022, the department is looking forward to further growing its portfolio and diversifying its investments.

Also, IBCM plans to launch new Shariah-compliant investment products to high net-worth individuals offering exposure to both GCC and International markets in equity and Sukuk space.

The department continues to play important role in the growth of Maisarah and the Islamic capital markets in Oman

Maisarah – Treasury Department

Maisarah Treasury continued to support the overall Bank's vision and commitment to contribute towards the growing Islamic Finance Sector in Oman. Despite the economic and Covid-19 related challenges, Maisarah Treasury ensured to meet all regulatory and internal ratios with regards to liquidity, financing, and the overall Asset and Liability mismatch.

Maisarah Treasury was also able to contribute positively to the overall profitability of the bank by ensuring that the bank always maintains the optimal level of required liquidity. Despite the lack of short-term liquidity instruments in the local market, Maisarah's treasury was able to generate positive returns by efficiently utilising funds within the local/offshore interbank market.

Maisarah Treasury diversified its funding base through introducing new government and corporate customers and accepting structured deposits along with long-term interbank funding through offshore Financial Institutions. This has helped Maisarah in keeping the overall cost of funding in check and in line with the yearly budget. In addition, several interbank agreements were signed with international counterparts that helped Maisarah meet its liquidity requirement effectively

As a result, Maisarah was able to improve the overall performance of the bank and establish itself as a leading Islamic Banking Entity in the Sultanate of Oman.

Sharia Supervisory Board

Maisarah's Sharia Supervisory Board (SSB) is the highest authority in Maisarah to decide on Sharia-related matters. SSB, with the aim of upholding the highest Sharia standards held 4 meetings during the year under the Chairmanship of Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab, and membership of Sheikh Dr. Abdullah bin Mubarak Al-Abri, Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati, Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan, Sheikh Dr. Mohammad Ameen Ali Qattan.

The SSB reviewed and approved all new products, services, policies, procedures, manuals, and amendments in the existing products and services to ensure ongoing Sharia compliance and supervisory guidance. The SSB has been fulfilling its responsibility of playing an important role in ensuring Sharia governance in line with CBO Islamic Banking Regulatory Framework (IBRF) and industry best practices with the help of Sharia Compliance and the Audit Department.

Sharia Compliance and Audit Department

A full-fledged Sharia Compliance and Audit department is working under the supervision of the Sharia Supervisory Board (SSB), in order to ensure that all the business operations conducted by Maisarah are in-line with the Sharia principles and as per the Sharia Governance framework mentioned in Islamic Banking Regulatory Framework (IBRF) of Central Bank of Oman comprises of Sharia Compliance Unit and Sharia Audit Unit.

To implement Sharia controls and ensure the highest standards of Sharia compliance, the Sharia department works closely with all departments and management within Maisarah to ensure all activities, operations, and transactions are conducted in accordance with Sharia rules, principles, and IBRF guidelines.

As a part of its role, the Sharia department monitors and audits all branches, business units and control functions of Maisarah. The service level agreements and profit distribution with BankDhofar are also reviewed and audited by the Sharia Compliance and Audit department.

Furthermore, Maisarah has entered into an engagement with an External Sharia Auditor that conducted a third-party independent Sharia audit and review to ensure the highest standards of Sharia compliance are maintained within Maisarah. The Sharia Compliance department is actively involved in Islamic banking and product-related training of staff, management and other stakeholders.

Maisarah Corporate Services

Maisarah Corporate Services group is composed of 7 major departments being Central Operations, Digital Banking, Trade Finance, Information Technology, Policies & Procedures, Credit Administration, and Support Services. These departments are further divided into units and are responsible to provide complete support to the business units and facilitate them not only in retaining the current business but to explore new business opportunities. The group is responsible to provide excellent services to help business in achieving their financial target without compromising on the regulatory and policy requirement.

As per the Bank's strategic plan, all the departments under corporate services work in cohesion and harmony to provide the utmost services to the front office departments to ensure fulfillment of the Bank vision of customer excellence and be more customer focused. In addition, MIBS Corporate Services continues to play a major role by expanding its scope of work in relieving all of the Branches, & Business units from backend functions, in process-optimization and automation.

Similarly, the manual execution of finance deals deferments for both Corporate & Retail customers due to the COVID-19 pandemic done by the Credit Administration Department.

Maisarah Corporate Services has committed to maintain high operational standards, ensuring in simplification of process, Monitoring Banks securities, and efficient use of resources. Maisarah Corporate Service Team believes in the vision of the Bank and have taken up the oath to fulfil the promise by providing superb service to help steer Maisarah Islamic Banking Services to the path of becoming one of the most recognizable Islamic Banks in the region.

Maisarah Central Operations

MIBS COD facilitates all operations of Maisarah to allow business units to offer the best and efficient services to customers, and continuously works on streamlining and re-engineering the processes to ensure that operational risks are minimized while enhancing the operational efficiencies to execute and process the transactions on day-to-day basis. Following was achieved during the year

1. Automated Clearing House process automation (STP)
2. Automated Clearing House processing of inward & outward 24*7
3. Direct Debit & credit automation (MMS)
4. Introduction of New Reports
5. Reconciliation project.
6. Review of core-banking system & process improvements related to central operations & branch operations.

Maisarah Digital Banking

Digital Banking department was established in 2021 as per Banks strategic vision. The department in a short span of time has played an important role in MIBS innovation journey by taking the products, services, and processes into the digital platform for automation and more efficient use of resources. For customer services, MIBS customer should no longer be restricted on transacting only at the branch. Digital-first is not just about being reactive; it is about being proactive in the way that helps the customers, who use a wide range of channels to seek out support. Mobile banking, social media, review social pages, forums, and communities are all now part of the customer service eco-system. Following was achieved during the year

1. Update of ID & resident card expiry date via mobile banking.
2. Enabling the call center to reset and re-issue debit card holder.
3. Automated Clearing House transfer 24/7
4. Debit Card activation at BankDhofar terminal
5. Cash Deposit for MIBS customers via BankDhofar terminal
6. Bulk Payment for Salary Payment & Other Payment for Government and Private Companies.
7. Alert Setup – Notification Alert module for Mobile Banking
8. Card Offers module in mobile banking
9. PIN Rest & PIN Reissue for debit card in Mobile Banking
10. Credit Card OTAC delivery via SMS and activation in MIBS ATM
11. Mobile wallet revamp

Maisarah Policies and Procedures

Maisarah Policies & Procedures Department has achieved several milestones within this year to enhance customer services by delivering various key projects among many other initiatives, MIBS PPD team was instrumental in driving the deferment project for the customers impacted by the COVID19 pandemic. The department plays an important role in enabling Maisarah to continue its remarkable growth by building the state-of-the-art infrastructure and developing the organizational structure for future success, major projects delivered by MPPD team are

1. GEIOM / Al Bawaba – Automation of Policies & Procedures review
2. Automation of SLA services under Shared Services Model
3. Automation of Printing of CIF information through Core Banking
4. Publishing Tariff inclusive of VAT - Maisarah (Website)
5. Simplification of Corporate Customers Outward Remittance Process and forms
6. Improved Branches & RMs response turnaround time for Electronic Cheque Clearing (ECC) requests
7. Simplification of Legal Agreements
8. Development of MIBS internal Portal for staff to have quick and better access to required documents and services.

Maisarah Credit Administration

Maisarah Islamic Banking Services Credit department is a control-oriented department, where posting of the Islamic Financing Contracts are handled to safeguard Bank in the best possible way. The department ensures that the final process of the contract is carried out according to the Islamic Shari'ah guidelines, controlling, perfecting and the safekeeping documentation under prescribed policies and guidelines of Central Bank. The department also looks into adherence to the governing policies of the legal system and the commercial law of the country while processing the financing. Following are the major achievements by the department

1. Updated all customers data in the new CBO Mala'a system
2. Automation of various regulatory and management reports.
3. Processing Restructuring of Customers facilities as per the directives of CBO

DISCLOSURE REQUIREMENTS UNDER PILLAR-III OF BASEL II & III

pwc

Report of factual findings to the Board of Directors of Bank Dhofar SAOG (the "Bank") in respect of Basel II - Pillar III Disclosures and Basel III disclosures of Maisarah Islamic Banking Services - Window

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures (the disclosures) of Maisarah Islamic Banking Services - Window (the Islamic window) of the Bank set out on pages 1 to 45 as at and for the year ended 31 December 2021. The Pillar III disclosures were prepared by the Directors in accordance with the related requirements of the IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013 and letter BSD/CB/2020/005 dated 3 June 2020. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements.

The procedures, as set out in Article 10.1.2 of title 5 'Capital Adequacy' of the IBRF, were performed solely to assist you in evaluating the Islamic window of the Bank's compliance with the disclosure requirements set out in the IBRF issued by the CBO and Circular No. BM 1114 dated 17 November 2013 and letter BSD/CB/2020/005 dated 3 June 2020.

We report our findings as follows:

- Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than the CBO. This report relates only to the accompanying Islamic window's disclosures and does not extend to any financial statements of the Islamic window or the Bank taken as a whole or to any other reports of the Islamic window or the Bank.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Islamic window or the Bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of any financial statements of the Islamic window or the Bank.

PricewaterhouseCoopers

Muscat, Sultanate of Oman
3 March 2022

PricewaterhouseCoopers LLC
C.R. No 1230865

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290, Commercial Register No. 1230865 Tax Card No 8055889

1. SCOPE OF APPLICATION

1.1. QUALITATIVE DISCLOSURE

1. Maisarah Islamic Banking Services (Maisarah) is an Islamic Window of BankDhofar SAOG (the Bank), established after obtaining license from the Central Bank of Oman (CBO). The principal activities of the Maisarah include accepting saving, investment accounts, providing Shari'a Compliant forms of financings as well as managing investor's money on the basis of Mudaraba or Wakala, providing commercial banking services and other investment activities.

2. A complete set of financial statements of Maisarah is included in the annual report of the Bank. The disclosures in this document have been prepared in accordance with the CBO requirements outlined in the Islamic Banking Regulatory Framework (IBRF), Title 5: Capital Adequacy.

3. There is no restriction on the transfer of funds from the Bank towards Maisarah. However, under the IBRF, Title 9, section 1.10.2, transfer of funds from Maisarah to the Bank is not permissible.

1.2. QUANTITATIVE DISCLOSURE

1. Maisarah does not own any interest in any entities including Takaful company.

2. CAPITAL STRUCTURE

2.1. QUALITATIVE DISCLOSURE

1. Islamic Windows of domestic conventional banks shall have and at all times maintain an allocated capital of not less than RO 10 million or such higher amount as may be determined from time to time by CBO. Islamic windows are also required to maintain the minimum capital adequacy ratio of 11% of the RWA at all times. The capital buffer requirement as per Basel III is imposed at the consolidated level and thus, is not applicable at the Islamic window level.

   Maisarah's regulatory capital is calculated as per the guidelines issued by the CBO. The regulatory capital is broadly classified into two categories – Tier I and Tier II capital. Maisarah's capital structure mainly consists of Tier I capital. Tier I capital includes paid up capital, retained earnings (available on a long-term basis) and reduced by unrealized losses on investments categorized as fair value through other comprehensive income. Within 11% Capital adequacy ratio, Islamic Window need to maintain minimum of 9% of Risk Weighted Assets (RWA) as Tier 1 Capital ratio.

   Tier II (supplementary capital) consists of undisclosed reserves, revaluation reserves / cumulative fair value gains on instruments classified as other comprehensive income and impairment provision subject to certain conditions.

   Deposits of Unrestricted Investment Account Holders (URIA) is not considered as part of regulatory capital and Maisarah is not reducing its risk weighted assets for jointly financed assets.

2. CAPITAL STRUCTURE (continued)

2.2 QUANTITATIVE DISCLOSURE (continued)

1. The details of capital structure are provided as under:

ELEMENTS OF CAPITAL	RO'000
Common Equity Tier I Capital (CET1)	
Paid up capital	70,000
Share Premium	-
Legal Reserve	-
Subordinated Debt Reserve	-
Retained earnings	20,020
Proposed Stock Dividend	-
Common Equity Tier I Capital (CET1)	**90,020**
Prudential valuation adjustments	(2,213)
Additional Tier I Capital (AT1)	-
Total Tier I Capital (TI=CET1+AT1)	**87,807**
Tier 2 Capital (T2): Instruments and provisions	
Subordinated Debt	-
45% of cumulative fair value gains of FVOCI instruments	136
Impairment provision (upto 1.25% of risk-weighted assets) *	6,895
Total Tier 2 Capital (T2)	**7,031**
TOTAL REGULATORY CAPITAL (TC=CET1+AT1+ T2)	**94,838**

* As per CBO Circular BSD/CB/2020/005 dated 03 June 2020, Expected Credit Loss (ECL) under Stage 1 and Stage 2 (20% of Stage 2 ECL as at 31 December 2019 and 80% of incremental Stage 2 ECL till 31 December 2021) shall be considered for Tier II capital provided such amount should not exceed 1.25% of the credit risk weighted assets.

2. The elements of equity of Unrestricted Investment Account Holders (URIA) are provided as under:

ELEMENTS OF EQUITY OF URIA	RO'000
Total URIA Funds	64,443
Profit Equalization Reserve (PER) - Shareholders' Component	15
Profit Equalization Reserve (PER) - Investment Account Holders' Component)	15
Investment Risk Reserve (IRR)	8
Total	**64,481**

3. CAPITAL ADEQUACY

3.1. QUALITATIVE DISCLOSURE

1. The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings from external credit assessment institutions is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

2. Maisarah capital adequacy ratio is 15.08% as against the CBO requirement of 11% of Minimum capital adequacy ratio. The Bank's policy is to manage and maintain its window's capital with the objective of maintaining strong capital ratio and high rating. Maisarah maintains capital levels that are sufficient to absorb all material risks to which it is exposed to and provides market return to the shareholders. Maisarah also ensures that the capital levels comply with regulatory requirements. The whole objective of the capital management process in Maisarah is to ensure that it always remains adequately capitalized.

3. In principle, Risk weighted assets (RWA) financed by Profit Sharing Investment Accounts (PSIA) are excluded in the calculation of the denominator of the capital ratio, as to the extent the commercial risk of these assets do not affect the capital of the shareholders. However, as per communication received from CBO, RWA shall be computed similar to that in conventional banking, therefore, PSIA is not deducted. Assets funded by PSIA are also assigned same risk weights as the assets funded by own equity.

3.2. QUANTITATIVE DISCLOSURE

1. Capital Requirement

Details	Risk Weighted Assets RO'000	Capital Requirements* RO'000
Credit Risk	551,627	60,679
Market Risk	13,538	1,489
Operational Risk	63,777	7,015
Total Risk Weighted Assets	**628,942**	**69,183**

* calculated as 11% of risk weighted assets as per the CBO requirement.

3. CAPITAL ADEQUACY (continued)

3.2. QUANTITATIVE DISCLOSURE (continued)

2. Capital Adequacy Ratio

Sr.No.	Details	RO'000
1	Tier I Capital (after supervisory deductions)	87,807
2	Tier II Capital (after supervisory deductions and up to eligible limits)	7,031
3	Of which, Total Eligible Tier III Capital	-
4	Risk weighted assets – banking book	551,627
5	Risk weighted assets – operational risk	63,777
6	Total risk weighted assets – Banking Book + Operational risk	**615,404**
7	Minimum required capital to support RWAs of banking book and operational risk	67,694
7 (1)	Minimum required Tier I capital for banking book and operational risk	60,663
7 (2)	Tier II capital required for banking book and operational risk	7,031
8	Tier I capital available for supporting trading book	27,144
9	Tier II capital available for supporting trading book	-
10	Risk weighted assets – trading book	13,538
11	Total capital required to support trading book	1,489
12	Minimum Tier I capital required for supporting trading book	424
13	Used Eligible Tier III Capital	-
14	**Total regulatory capital**	**94,838**
15	**Total risk weighted assets**	**628,942**
16	**BIS capital adequacy ratio**	**15.08%**

3. CAPITAL ADEQUACY (continued)

3.2. QUANTITATIVE DISCLOSURE (continued)

3. Ratio of Total and Tier I Capital to RWA

Details	RO'000
Tier I capital	87,807
Total capital	94,838
Total RWA	628,942
Ratio of total capital to RWA (%)	**15.08%**
Ratio of tier I capital to RWA (%)	**13.96%**

4. Ratio of Total Capital to Total Assets

Details	RO'000
Total capital	94,838
Total assets	677,140
Ratio of total capital to total assets (%)	**14.01%**

5. Capital Requirement for Each Category of Shari'a Compliant Financing Contracts

Details	Credit Risk		Market Risk	
	RWA RO '000	Capital Requirement RO '000	RWA RO '000	Capital Requirement RO '000
Murabaha and other Receivables	29,829	3,281	-	-
Mudaraba Financings	55,045	6,055	-	-
Ijarah Assets	17,653	1,942	-	-
Diminishing Musharaka Financing	277,275	30,500	-	-
Wakala Financing	61,977	6,817	-	-
Total	**441,779**	**48,595**	**-**	**-**

3. CAPITAL ADEQUACY (continued)

3.2. QUANTITATIVE DISCLOSURE (continued)

6. Disclosure of Displaced Commercial Risk

Details	RO'000
Total profits available for distribution	**33,588**
Profit sharing	
- Shareholders	31,537
- IAH's	**2,051**
Mudarib fee charged by Maisarah	(418)
Profits for IAH's before smoothening	**1,633**
Amount adjustment for profit smoothening	(11)
Profits paid out to IAH after smoothening	**1,622**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH)

4.1.1. QUALITATIVE DISCLOSURE

1. Policy for profit and loss distribution is in place which governs the management of unrestricted funds. The policy includes the management and investment of fund strictly in Shari'a compliant investments and financing opportunities.
2. Currently, Maisarah offers following types of unrestricted Mudaraba deposits to customers:
   - Savings accounts;
   - Prize Saving accounts; and
   - Term deposits of various maturities.

   These products are made available to the investors through Maisarah branches. Further, the products are also listed on Maisarah's website with detailed product information. With effect from 1st January 2022, saving account product with prize money shall be discontinued as per CBO guidelines.
3. Asset and Liability Committee (ALCO) is the governing body responsible for the determination of assets to form the pool of assets. Basis for allocation of expenses and profit is provided in detail under disclosure 4.2.1.
4. The policy [identified in point (i) of this disclosure] is in place which governs the management of both unrestricted and restricted IAH funds, approaches to the management of investment portfolio, establishment of prudential reserves, and the calculation, allocation and distribution of profits.

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH) (continued)

4.1.2. QUANTITATIVE DISCLOSURE

1. PER to IAH Ratio

Represents the amount of total PER / Amount of PSIA by type of IAH

Details	RO'000 / %
Profit Equalization Reserve	30
Unrestricted Investment Account Holders funds	64,443
PER to IAH ratio	**0.047%**

2. IRR to IAH Ratio

Represents the amount of total IRR / Amount of PSIA by type of IAH

Details	RO'000 / %
Investment Risk Reserve (IRR)	8
Unrestricted Investment Account Holders funds	64,443
IRR to IAH ratio	**0.012%**

3. Return on Assets (RoA)

Represent the amount of total net income (before distribution of profit to unrestricted IAH) / Total amount of assets financed by shareholders' equity and minority interests, Unrestricted IAH, and current accounts and other liabilities).

Details	RO'000 / %
Total net income (before distribution to IAHs)	10,125
Total assets	677,140
RoA	**1.495%**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH) (continued)

4.1.2. QUANTITATIVE DISCLOSURE (continued)

4. Return on Equity (RoE)

Represents the amount of total net income (after distribution of profit to IAH) / Amount of shareholders' equity.

Details	RO'000 / %
Total net income (after distribution to IAHs)	8,921
Total shareholder's equity	88,109
RoE	**10.125%**

5. Ratios of Profit Distributed to PSIA by type of IAH

Details	%
Savings deposit	100
Term deposit	-
Total	**100**

6. Ratios of Financing to PSIA by type of IAH

Details	RO'000 / Ratio
Total Financing	498,645
Saving deposits	64,443
Financing to PSIA	**7.74**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.2. UNRESTRICTED INVESTMENT ACCOUNTS

4.2.1. QUALITATIVE DISCLOSURE

1. During the current year, there was no major change in the investment strategy of Maisarah which affects the investment accounts. Maisarah continued the commingling of IAH's funds with its own funds or with the funds which Maisarah has right to use.
2. Income from Mudaraba pool, comprising of Shari'a compliant assets, is reduced by direct expenses. PER is appropriated from the net income before allocating the Mudarib's share of income. Thereafter, Mudarib's fee is charged which shall not exceed 80% of the profit earned by Maisarah. IRR is deducted from investment accountholders share after allocating the Mudarib's share of profit. Net distributable income is distributed to different classes of investment accountholders in accordance with the weightages based on amount and tenor.
3. PER is the amount Maisarah appropriates in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib's share of income to maintain a certain level of return. PER will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. IRR is deducted from investment accountholders share after allocating the Mudarib's share of profit as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.
4. ALCO determines the category of expenses that should be deducted from the total return (gross returns) of the investment pools as direct expenses. Direct expenses such as depreciation, pre-paid expenses, commission of direct investments (such as Sukuk) or any other direct related expenses shall be charged to the relevant pool. Maisarah does not charge any operating expenses against the profits from the joint pool other than the aforementioned direct expenses.
5. The administration expenses are only charged to Maisarah.

4.2.2.QUANTITATIVE DISCLOSURE

1. Unrestricted IAH Funds and Sub-Total by Asset Category

Details	RO'000
Assets	
- Murabaha	3,120
- Diminishing Musharaka	37,885
- Ijarah Muntahia Bittamleek	4,931
- Wakala financing	6,500
- Mudaraba financing	1,943
- Investment in Sukuk	8,736
- Wakala placement	1,260
- Murabaha and Musawamah inventory	2
- Advances	67
Total Unrestricted IAH Funds (allocated based on proportion)	**64,443**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.2. UNRESTRICTED INVESTMENT ACCOUNTS (continued)

4.2.2. QUANTITATIVE DISCLOSURE (continued)

2. Share of Profit to IAH before and after transfer of funds

Details	RO'000	%
Share of profit of IAHs before PER and IRR for the year	1,633	2.53%
Transfers To:		
PER	(8)	-0.01%
IRR	(3)	0.00%
Share of profit of IAHs after PER and IRR for the year	**1,622**	**2.52%**

3. Movement of PER and IRR

Details	PER RO'000	IRR RO'000
Balance as at 1 January 2021	22	5
Add: Amount apportioned from income allocated	8	3
Less: Amount utilized during the year	-	-
Balance as at 31 December 2021	**30**	**8**

4. Utilization of PER and IRR

PER and IRR have not been utilized during the year.

5. 5 Years Profits Earned and Profits Paid

Deposit Category	Average rate over 5 years	Position as at				
		Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017
Saving accounts (RO)	0.80%	1.21%	0.57%	0.60%	0.66%	0.95%
Saving accounts (USD)	0.20%	0.22%	0.19%	-	0.22%	0.19%
Prize Saving Account	0.70%	0.68%	0.59%	0.61%	0.64%	0. 99%

6. Administrative Expenses

Maisarah does not charge any administrative expenses to unrestricted IAH.

7. Asset Allocation During Last Six Months

There have been no material changes in asset allocation during the last six months.

8. Off Balance Sheet Exposures

No off-balance sheet exposure is allocated to the pool.

9. Limits Imposed on Investment Amount

Maisarah has not imposed any limits on the amount that can be invested in any one type of asset.

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.3. RESTRICTED INVESTMENT ACCOUNTS

1. The Bank does not have any restricted investment accounts as at the reporting date.

5. RETAIL INVESTOR-ORIENTED DISCLOSURES FOR IAH

Disclosures for IAHs, mentioned in section 4, is equally applicable for the retail investors. Below are some of the salient features for retails investors:

1. The deposits being accepted by the Bank under URIA are structured according to Mudaraba contracts. Under the Mudaraba, the Bank acts as a Manager (Mudarib) of the depositor / Investor (Rab ul Maal).
2. Under the arrangement of URIA, the Bank is authorized to invest the IAHs' funds strictly in Shari'a compliant investment and financing opportunities. Under this arrangement, the Bank can mix the IAHs funds with its own funds. Accordingly, IAHs, and the Bank share in the returns on the invested funds in proportion to their respective investments.
3. Different categories of deposits are assigned variable weights / utilization rates based on the investment amount and tenor. The higher the investment amount and the longer the investment tenor, the higher shall be the weights / utilization rates.
4. In case of premature withdrawals, the bank may apply a lower weights / utilization rate. Where a deposit is withdrawn by the IAH before the completion of its term, the effective weight / utilization rate for the highest tenor completed by the investment shall be applied on the actual investment days for profit calculation.
5. Profit on the investment jointly financed by the Bank and IAHs, shall be allocated between them according to their respective investment portions. Any loss due to negligence or misconduct on the part of the Bank shall be deducted from the Bank's share in the profits of the jointly financed investment.
6. The profit from URIA accounts shall be calculated and allocated based on the profit calculation frequency and the weights / utilization rates assigned to each category of deposits.
7. The banks shall charge only direct expense to the pool income such as depreciation on Ijarah assets; and will not deduct any indirect expenses such as salary, admin costs etc.
8. To cater the situation where actual profit rate is less than the market rate (known as Displaced Commercial Risk) and to cater the future losses, the Bank maintains a certain percentage of profits as Profit Equalization Reserve and Investment Risk Reserve respectively.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION

6.1. GENERAL DISCLOSURE

6.1.1. QUALITATIVE DISCLOSURE

1. Bank has well established risk management function which commonly serves the Conventional and Islamic window entity. The objective of the risk management function is to identify, measure, monitor and manage its risk exposures to ensure that:
   - risks are understood;
   - risks are within tolerances set by the Board of Directors;
   - decisions having inherent risks are consistent with strategic business objectives;
   - risk taking decisions are explicit and clear;

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.1. GENERAL DISCLOSURE (continued)

6.1.1. QUALITATIVE DISCLOSURE (continued)

- the expected return compensates for the risk taken; and
- bank's performance incentives are aligned with risk tolerances or risk reward relationship.

Risk management is a continuous, forward-looking process that should address issues that could endanger achievement of critical objectives. A continuous risk management approach is applied to effectively anticipate and mitigate the risks that have critical impact on the business.

Bank's risk management strategy statement has been provided under Chapter on Management Discussion and Analysis. Bank has formulated various policies in various areas of operations of the Bank which are duly approved by the Board of Directors. Bank also has developed various procedures for smooth functioning and mitigating/ controlling risks.

2. The overall risk management has been delegated to an independent Board Risk Committee (BRC) of the Bank, which monitors and controls the overall risk profile (including Maisarah Islamic Banking Services). The BRC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in the Bank. In this task, BRC relies on an independent Risk Management Division within the Bank.

   The Bank has a well-established Risk Management Division (RMD) with a team of highly competent and experienced professionals. The primary responsibility of the RMD is to ensure, on a continuous basis, that an effective risk management framework exists and that the various divisions of the Bank, including Maisarah Islamic Banking Services, function within this framework. RMD also functions as an interface between the Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions of the Bank and in ensuring that policies and procedures are tailored to the defined tolerance levels.

3. Depending on the type of risk, Bank has placed internal systems and models to measure various risks. The risk measurement system has been made effective by strengthening the Management Information System (MIS) to report about various to Senior Management and Board on periodical basis. The measurement of risk takes into account the nature of the risk, exposure, profile, existence of mitigants and the impact.

4. Bank has defined various policies to define the collaterals and processes to mitigate various risks. A continuous risk management approach is applied to effectively anticipate and mitigate the risks that have critical impact on the business. Bank has defined three lines of defense system for monitoring the risks. The Three Lines of Defense Framework defines roles and responsibilities of various entities in the Bank in addressing risks and controls; the aspect for which each entity is accountable, and how the efforts between entities are coordinated at the Bank-wide level. The framework addresses how specific duties related to risk and control could be assigned and coordinated within an organization and monitors the implementation of effective risk management practices.

6.1.2. QUANTITATIVE DISCLOSURE

1. Risks Measures for Restricted IAH Funds and Assets Funded by Restricted IAH

The Bank does not have any restricted investment accounts as at the reporting date.

2. Assets Financed by Unrestricted IAH in RWA Calculation

Maisarah applies same treatment for calculation of RWA for assets financed by unrestricted IAH and shareholders.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.1. GENERAL DISCLOSURE (continued)

6.1.2. QUANTITATIVE DISCLOSURE (continued)

3. Financing by Contract Type

Details	RO'000	%age of total financing
Murabaha and other receivables	29,218	5.83%
Mudaraba Financings	17,819	3.55%
Ijarah Assets	45,212	9.02%
Diminishing Musharaka Financing	347,400	69.31%
Wakala Financing	61,606	12.29%
Total	**501,255**	**100.00%**

4. Financing by Counterparty Category

Details	RO'000	%age of total financing
Corporate and SME	325,750	64.99%
Retail	175,505	35.01%
Total	**501,255**	**100.00%**

5. Assets Pledged as Collateral

As of the reporting date, Maisarah has not pledged any of its assets as collateral (2020: no assets were pledged).

6. Guarantees or Pledges by Islamic Window

As of the reporting date, Maisarah has not extended any guarantees or pledges (2020: no guarantees or pledges).

6.2. CREDIT RISK

6.2.1. QUALITATIVE DISCLOSURE

1. Credit risk is defined as the possibility that a customer or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from Maisarah's dealings with or financing to a corporate, individual, another bank or financial institution. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

2. Maisarah has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent benchmarks, limits for management of credit risks. The Board of Directors delegate credit approval powers for functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.1. QUALITATIVE DISCLOSURE (continued)

Board Executive Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain finance approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment of all the credit corporate proposals before they are considered by the appropriate approving authorities. The customer in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned the grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the customer and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition, RMD reviews grading of obligors, and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category accounts), reviews have been prescribed at higher frequency.

Retail financing is strictly in accordance with the CBO guidelines.

In addition to these, Maisarah also undertakes business with other banks. The maximum exposures to these banks are defined in the policy on exposure to non-resident borrowers and restrictions are put in place on the total exposure to such counterparty banks. Maisarah has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the internal risk rating grades assigned to various countries and these limits are reviewed at least on yearly basis.

3. In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention is used for Maisarah as well.

   The Bank's conventional entity has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. The same convention has been adopted for Maisarah as well.

   The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is NIL. All other credit exposures of Corporate and Retail (except house finance, where valuation of the property is not older than 3 years; have a maximum of 2 dwelling units per borrower; and LTV is less than or equal to 80%, are assigned 35% risk weight and 75% for SME borrowers) are assigned 100% risk weight.

4. Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Bank has adopted the International Financial Reporting Standards (IFRS) 9 guidelines for estimation of Expected Credit Loss as per International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, effective from 01 January 2018.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE

1. Total Gross Credit and Average Gross Credit Exposure

31 December 2021	Total Gross Credit RO'000	Average Gross Credit RO'000
Murabaha and other receivables	29,218	30,593
Mudaraba financing	17,819	15,127
Diminishing Musharaka financing	347,400	349,779
Wakala financing	61,606	56,104
Ijarah Muntahia Bittamleek	45,212	46,059
Total	**501,255**	**497,662**

31 December 2020	Total Gross Credit RO'000	Average Gross Credit RO'000
Murabaha and other receivables	24,024	28,526
Mudaraba financing	13,331	15,575
Diminishing Musharaka financing	347,784	337,487
Wakala financing	52,017	47,964
Ijarah Muntahia Bittamleek	46,400	46,358
Total	**483,556**	**475,910**

Murabaha and other receivable includes Credit Card receivables which are funded exclusively by shareholders while all other financing exposures are funded jointly by shareholders and IAH. Percentage of funding of financing assets as at 31 December 2021 is as below:

Shareholders **87.14%**

IAH **12.86%**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

2. Total Gross Credit Exposure – Geographical Area

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Sultanate of Oman	29,218	17,819	347,400	61,606	45,212	**501,255**
Other GCC Countries	-	-	-	-	-	**-**
Europe and North America	-	-	-	-	-	**-**
Africa and Asia	-	-	-	-	-	**-**
Total	**29,218**	**17,819**	**347,400**	**61,606**	**45,212**	**501,255**

3. Total Gross Credit Exposure – Counterparty

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Corporate & SME	15,638	17,819	230,468	61,606	219	**325,750**
Retail	13,580	-	116,932	-	44,993	**175,505**
Total	**29,218**	**17,819**	**347,400**	**61,606**	**45,212**	**501,255**

4. Total Gross Credit Exposure – Industry

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Retail personal finances	13,580	-	116,932	-	44,993	**175,505**
Construction	2,087	4,083	139,686	17,914	219	**163,989**
Manufacturing	10,662	2,796	8,073	10,369	-	**31,900**
Services	-	18	54,637	3,377	-	**58,032**
Others	2,889	10,922	28,072	29,946	-	**71,829**
Total	**29,218**	**17,819**	**347,400**	**61,606**	**45,212**	**501,255**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

5. Total Gross Credit Exposure – Residual Contractual Maturity

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Upto 1 month	4,422	17,819	2	21,314	-	**43,557**
1 – 3 months	7,438	-	423	17,312	-	**25,173**
3 – 6 months	1,350	-	90	18,971	12	**20,423**
6 – 9 months	91	-	96	4,009	5	**4,201**
9 – 12 months	20	-	114	-	14	**148**
1 – 3 years	1,744	-	5,898	-	236	**7,878**
3 – 5 years	3,654	-	19,679	-	449	**23,782**
Over 5 years	10,499	-	321,098	-	44,496	**376,093**
Total	**29,218**	**17,819**	**347,400**	**61,606**	**45,212**	**501,255**

6. Total Gross Credit Exposure – Rating Category

Ratings	2021 RO'000	2020 RO'000
Rating grade 1 – 3	58,252	62,556
Rating grade 4 – 5	348,726	353,610
Rating grade 6 – 8	89,610	62,871
Non – performing financing	4,667	4,519
Total Financing	**501,255**	**483,556**

7. Total Gross Credit Exposure – Equity Based Financing

Equity based financing	31 December 2021		31 December 2020	
	Total Gross Credit RO '000	Average Gross Credit RO '000	Total Gross Credit RO '000	Average Gross Credit RO '000
Mudaraba financing	17,819	15,127	13,331	15,575
Wakala financing	61,606	56,104	52,017	47,964
Total	**79,425**	**71,231**	**65,348**	**63,539**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

8. Past Due and Impaired Financing Assets – Counterparty

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Corporate & SME						
- Neither past due nor impaired	12,302	17,819	208,904	60,929	219	**300,173**
- Past due but not impaired	3,328	-	17,455	591	-	**21,374**
- Non-performing	8	-	4,109	86	-	**4,203**
- Total financing	**15,638**	**17,819**	**230,468**	**61,606**	**219**	**325,750**
- Stage 1 & 2 ECL	152	242	7,597	141	2	**8,134**
- Stage 3 ECL	2	-	1,300	24	-	**1,326**
- Total ECL	**154**	**242**	**8,897**	**165**	**2**	**9,460**
Retail						
- Neither past due nor impaired	13,189	-	111,527	-	42,116	**166,832**
- Past due but not impaired	288	-	5,168	-	2,753	**8,209**
- Non-performing	103	-	237	-	124	**464**
- Total financing	**13,580**	**-**	**116,932**	**-**	**44,993**	**175,505**
- Stage 1 & 2 ECL	77	-	564	-	228	**869**
- Stage 3 ECL	52	-	144	-	80	**276**
- Total ECL	**129**	**-**	**708**	**-**	**308**	**1,145**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

9. Past Due and Impaired Financing Assets – Industry

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Retail personal finances						
- Neither past due nor impaired	13,189	-	111,527	-	42,116	**166,832**
- Past due but not impaired	288	-	5,168	-	2,753	**8,209**
- Non-performing	103	-	237	-	124	**464**
- Total financing	**13,580**	**-**	**116,932**	**-**	**44,993**	**175,505**
- Stage 1 & 2 ECL	77	-	564	-	228	**869**
- Stage 3 ECL	52	-	144	-	80	**276**
- Total ECL	**129**	**-**	**708**	**-**	**308**	**1,145**
Construction						
- Neither past due nor impaired	1,317	4,083	120,151	17,723	219	**143,493**
- Past due but not impaired	770	-	15,500	191	-	**16,461**
- Non-performing	-	-	4,035	-	-	**4,035**
- Total financing	**2,087**	**4,083**	**139,686**	**17,914**	**219**	**163,989**
- Stage 1 & 2 ECL	24	109	5,748	58	2	**5,941**
- Stage 3 ECL	-	-	1,281	-	-	**1,281**
- Total ECL	**24**	**109**	**7,029**	**58**	**2**	**7,222**
Manufacturing						
- Neither past due nor impaired	8,745	2,796	8,073	10,369	-	**29,983**
- Past due but not impaired	1,917	-	-	-	-	**1,917**
- Non-performing	-	-	-	-	-	**-**
- Total financing	**10,662**	**2,796**	**8,073**	**10,369**	**-**	**31,900**
- Stage 1 & 2 ECL	12	43	180	8	-	**243**
- Stage 3 ECL	-	-	-	-	-	**-**
- Total ECL	**12**	**43**	**180**	**8**	**-**	**243**
Services						
- Neither past due nor impaired	-	18	54,174	3,377	-	**57,569**
- Past due but not impaired	-	-	463	-	-	**463**
- Non-performing	-	-	-	-	-	**-**
- Total financing	**-**	**18**	**54,637**	**3,377**	**-**	**58,032**
- Stage 1 & 2 ECL	-	-	1,315	8	-	**1,323**
- Stage 3 ECL	-	-	-	-	-	**-**
- Total ECL	**-**	**-**	**1,315**	**8**	**-**	**1,323**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

9. Past Due and Impaired Financing Assets – Industry (continued)

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Others						
- Neither past due nor impaired	2,240	10,922	26,506	29,460	-	**69,128**
- Past due but not impaired	641	-	1,492	400	-	**2,533**
- Non-performing	8	-	74	86	-	**168**
- Total financing	**2,889**	**10,922**	**28,072**	**29,946**	**-**	**71,829**
- Stage 1 & 2 ECL	116	90	354	67	-	**627**
- Stage 3 ECL	2	-	19	24	-	**45**
- Total ECL	**118**	**90**	**373**	**91**	**-**	**672**

10. Past Due and Impaired Financing Assets – Geographical Area

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Sultanate of Oman						
- Neither past due nor impaired	25,491	17,819	320,431	60,929	42,335	**467,005**
- Past due but not impaired	3,616	-	22,623	591	2,753	**29,583**
- Non-performing	111	-	4,346	86	124	**4,667**
- Total financing	**29,218**	**17,819**	**347,400**	**61,606**	**45,212**	**501,255**
- Stage 1 & 2 ECL	229	242	8,161	141	230	**9,003**
- Stage 3 ECL	54	-	1,444	24	80	**1,602**
- Total ECL	**283**	**242**	**9,605**	**165**	**310**	**10,605**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

11. Loss Provisions

Details	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
As at 1 January 2021	2,929	4,765	2,137	9,831
Provided / Added during the year	2,363	(33)	336	2,666
Written back during the year	-	-	(28)	(28)
Written off during the year	-	-	-	-
As at 31 December 2021	**5,292**	**4,732**	**2,445**	**12,469**

12. Penalties on Customers and Donation Payment

Details	RO'000
Undistributed charity funds as at 1 January 2021	7
Shari'a non-compliant income	5
Disposition of charity funds	(7)
Undistributed charity funds as at 31 December 2021	**5**

6.3. CREDIT RISK MITIGATION

6.3.1. QUALITATIVE DISCLOSURE

1. i. Assets leased under Ijarah Muntahiyah Bittamleek is governed by the relevant product schemes of Corporate Ijarah and Home Finance. Asset under Ijarah is owned by Maisarah by registering it in its name throughout the period of Ijarah. Further, the asset is also secured through Takaful (Islamic Insurance), to cover Maisarah's exposure in case of loss.

2. Hamish Jiddiyah / Urbun is a down payment is taken from the customer as part of his contribution in the asset. With respect to pledge of asset, an asset in case of Ijarah remains in Maisarah's ownership during the term of financing, however, in case of Diminishing Musharaka the pledge is a primary collateral.

3. Maisarah has well defined policies in place for the valuation and re-valuation of the collateral and it's enforceability. It is principally governed through the Credit Risk Policy, combined with related product schemes such as Corporate Ijarah, Corporate Diminishing Musharaka, Home Finance and Property Finance. Further to this the mechanism of disposing of such assets is also discussed in the policy and Instruction Manual Wholesale Banking and Instruction Manual Credit Administration.

4. The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.3. CREDIT RISK MITIGATION (continued)

6.3.1. QUALITATIVE DISCLOSURE (continued)

The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Customer and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing assets grades (including special mention) and 3 non-performing assets grades. The rating grade indicates the default probability of the customer's obligation. The same rating framework has been adopted by Maisarah as well.

Bank has also implemented Risk Adjusted Return on Capital (RAROC) methodology for Maisarah which provides the risk-based pricing. The RAROC system enables Maisarah to price its facilities after considering the cost and risk involved in a facility.

6.3.2. QUANTITATIVE DISCLOSURE

1. Total Carrying Amount by Type of Collateral

Total carrying amounts of collateral of non-performing corporate assets by type of collateral held by the window is as follows:

Collateral Type	Collateral Value RO'000	Haircut Applied %	Total Collateral After Haircut Applied RO'000
Mortgage – with last valuation date 1 year and less	4,074	25%	3,056
Mortgage – with last valuation date more than 1 year but less than 2 years	2,000	35%	1,300
Total	**6,074**		**4,356**

2. Assets Owned and Leased under Ijarah Muntahiyah Bittamleek

Carrying amount of assets under Ijarah Muntahia Bittamleek as of 31 December 2021 is RO 45,212 thousand.

6.4. LIQUIDITY RISK

6.4.1. QUALITATIVE DISCLOSURE

1. Maisarah's Liquidity Risk Management is governed by the Asset Liability Management Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management.

   Overall, Bank follows CBO circular BM955 for liquidity risk management of Current Accounts and URIA, which requires the monitoring and managing based on the cashflow approach for liquidity risk profile. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah 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 above five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the limits set by CBO on cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.4. LIQUIDITY RISK (continued)

6.4.1. QUALITATIVE DISCLOSURE (continued)

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

6.4.2. QUANTITATIVE DISCLOSURE

1. Indicators of Exposure to Liquidity Risk

Ratios	%
Liquid asset ratios	15.98%
Liquid assets to short term liabilities	113.97%
Liquidity coverage ratio	312.84%
Net stable funding ratio	126.34%

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.4.2. QUANTITATIVE DISCLOSURE (continued)

2. Maturity Analysis / Maturity Profile

	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	23,729	-	-	-	-	**23,729**
Due from banks and financial institutions	13,830	-	-	-	-	**13,830**
Murabaha and other receivables	3,836	8,845	185	5,615	10,449	**28,930**
Mudaraba financing	891	1,782	1,782	8,909	4,213	**17,577**
Diminishing Musharaka financing	9,387	32,040	38,813	131,032	126,523	**337,795**
Investments	-	-	-	79,962	-	**79,962**
Wakala	22,980	34,478	3,981	-	-	**61,439**
Ijarah Muntahia Bittamleek	-	12	30	685	44,175	**44,902**
Property and equipment	-	-	-	-	394	**394**
Intangibles	-	-	-	-	671	**671**
Other asset	20,457	9,741	36,575	-	1,138	**67,911**
Total assets	**95,110**	**86,898**	**81,366**	**226,203**	**187,563**	**677,140**
Current accounts	10,029	5,583	3,189	-	3,988	**22,789**
Qard Hasan from Head Office	2,759	-	-	35,000	-	**37,759**
Other liabilities	6,860	9,753	36,587	128	864	**54,192**
Wakala inter bank deposits	-	-	9,625	50,400	-	**60,025**
Wakala customer deposits	28,906	84,407	92,276	98,290	45,906	**349,785**
Equity of unrestricted investment accountholders	3,224	6,447	6,446	32,216	16,148	**64,481**
Owner's equity	-	-	-	-	88,109	**88,109**
Total liabilities and accountholders & owners' equity	51,778	106,190	148,123	216,034	155,015	677,140

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.5. MARKET RISK

6.5.1. QUALITATIVE DISCLOSURE

1. Market Risk is the risk to the Bank's earnings and capital due to changes in the profit rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

   Maisarah has a comprehensive Asset Liability Management Policy which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per standardized approach of Basel II.

6.5.2. QUANTITATIVE DISCLOSURE

1. Breakdown of Market Risk RWA

Details	RWA RO'000
Profit rate related instrument	-
Equity	-
Foreign exchange & gold position	13,538
Commodities position	-
Total	**13,538**

2. Foreign Exchange Net Open Positions to Capital

Details	Amount RO'000
Foreign exchange net open position	1,866
Total capital	94,838
Foreign exchange net open position to total capital	0.020
93.4% of the net open position is in pegged currencies.	

3. Commodity Net Open Positions to Capital

As at reporting date, Maisarah does not have an exposure to commodity positions.

4. Equity Net Open Positions to Capital

As at reporting date, Maisarah does not have an exposure to equity positions.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.5. MARKET RISK (continued)

6.5.2. QUANTITATIVE DISCLOSURE (continued)

5. Assets Subject to Market Risk by Type of Assets

Type of Assets	Gross Amount RO'000
Total Sukuk	80,112
Net open position foreign currency	1,866

6. Sensitivity analysis for different types of Market Risk

Impact on earnings due to profit rate risk in the banking book is as follows:

	+ or – 1%		+ or – 2%	
	2021 RO '000	2020 RO '000	2021 RO '000	2020 RO '000
Omani Rials	**1.03**	1.01	**2.07**	2.01
US Dollars	**0.42**	0.40	**0.84**	0.80
Other currencies	**-**	-	-	-

Impact on earnings due to foreign exchange risk:

Impact on earnings due to 10% devaluation of foreign exchange in the banking book is RO 187 thousand.

6.6. OPERATIONAL RISK

6.6.1. QUALITATIVE DISCLOSURE

1. The Operational risk policy of the Bank sets out the loss mitigation tools. Bank has established a disaster comprehensive recovery and business continuity plan, considering various plausible scenarios in accordance with the 'Business Continuity Plan (BCP). Bank has implemented IT Security Policy and guidelines to mitigate the information technology security related risks.

   The Bank has developed a comprehensive operational risk management framework comprising of the Risk Control and Self-Assessment, Key Risk Indicator and Loss Data Management (LDM) Framework. The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact on the Bank. Bank has created a comprehensive risk register which includes inherent risk events, control effectiveness and residual risks. The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks at various levels. KRIs of all the departments have been identified and are being monitored on a monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on a regular basis and is presented to the Management and Board level committees.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.6. OPERATIONAL RISK (continued)

6.6.1. QUALITATIVE DISCLOSURE (continued)

2. Bank has set up Management Risk Committee to identify, manage, measure, monitor, mitigate and report operational risks.

   Bank has the process of collecting and collating data on operational risk events to build a strong loss data base and to improve the control effectiveness. The loss data are being captured using Operational Risk Management system. Further, other operational risk tools like Risk Control & Self-Assessment (RCSA) and Key Risk Indicators (KRIs) are also implemented.

   In terms of regulatory guidelines, Bank has adopted the Basic Indicator Approach (BIA) for computing the capital charge for Operational Risk.

3. Maisarah has in place the policies and procedures to increase the banking as well as the Islamic financing knowledge within its staff. During the year, Maisarah has conducted 38 training programs including both in-house as well as external training programs. These programs were conducted mainly in the areas of concepts of Islamic banking and the products and services of Islamic banking.

6.6.2.QUANTITATIVE DISCLOSURE

1. RWA Equivalent for Quantitative Operational Risk

Details	RWA RO'000
Operational risk	63,777

2. Gross Income

Details	2021 RO'000	2020 RO'000	2019 RO'000	Average
Gross income	37,166	33,931	30,946	34,014

3. Amount of Shari'a Non-Compliant Income

Amount of Shari'a non-compliant income transferred to charity was RO 5 thousand.

6.7. RATE OF RETURN RISK

6.7.1. QUALITATIVE DISCLOSURE

1. Rate of return risk refers to the possible impact on the net income of Maisarah arising from the impact of changes in market rates and relevant benchmark rates on the return on assets and on the returns payable on funding. An increase in benchmark rates may result in IAH's having expectation of a higher rate of return, while the returns on assets may be adjusting more slowly due to longer maturities, thereby affecting the net income of Maisarah.

2. The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Maisarah is not subject to any significant profit rate risk. However, the profit-sharing agreements will result in Displaced Commercial Risk (DCR) when Maisarah results do not allow to distribute profits in line with the market rates. To cater against DCR, Maisarah creates Profit Equalisation Reserve as explained in section 4.2.1.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.7. RATE OF RETURN RISK (continued)

6.7.2. QUANTITATIVE DISCLOSURE

1. Indicators of exposures to rate of return risk

	Effective average profit rates	Due on demand and within 30 days RO 000	Due within 1 to 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
31 December 2021								
Cash and balances with Central Bank of Oman	**-**	-	-	-	-	-	23,729	**23,729**
Due from banks and financial institutions	**0.76%**	11,549	-	-	-	-	2,281	**13,830**
Murabaha and other receivables	**5.68%**	4,417	8,785	110	5,310	10,308	-	**28,930**
Mudaraba financing	**6.05%**	-	-	17,577	-	-	-	**17,577**
Diminishing Musharaka Financing	**5.91%**	15,606	89,663	26,002	90,478	116,046	-	**337,795**
Investments	**5.58%**	-	-	-	79,962	-	-	**79,962**
Wakala	**6.05%**	22,920	34,478	3,981	-	60	-	**61,439**
Ijara Muntahia Bittamleek	**5.45%**	-	12	19	685	44,186	-	**44,902**
Property and equipment	**-**	-	-	-	-	-	394	**394**
Intangibles	**-**	-	-	-	-	-	671	**671**
Other asset	**-**	-	-	-	-	-	67,911	**67,911**
Total assets		**54,492**	**132,938**	**47,689**	**176,435**	**170,600**	**94,986**	**677,140**
Current accounts	**-**	-	-	-	-	-	22,789	**22,789**
Qard Hasan from Head office	**-**	-	-	-	-	-	37,759	**37,759**
Other liabilities	**-**	-	-	-	-	-	54,192	**54,192**
Wakala inter bank deposits	**2.21%**	-	-	9,625	50,400	-	-	**60,025**
Wakala customer deposits	**3.77%**	1,688	40,173	68,159	102,280	137,485	-	**349,785**
Equity of unrestricted investment accountholders	**2.04%**	64,443	-	-	-	-	38	**64,481**
Owner's equity		-	-	-	-	-	88,109	**88,109**
Equity of accountholders & Total liabilities and shareholders' equity		**66,131**	**40,173**	**77,784**	**152,680**	**137,485**	**202,887**	**677,140**
On-balance sheet gap		**(11,639)**	**92,765**	**(30,095)**	**23,755**	**33,115**	**(107,901)**	**-**
Cumulative profit sensitivity gap		**(11,639)**	**81,126**	**51,031**	**74,786**	**107,901**	**-**	**-**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.7. RATE OF RETURN RISK (continued)

6.7.2. QUANTITATIVE DISCLOSURE (continued)

2. Sensitivity Analysis

As per the sensitivity analysis of profit rate movement by 200 basis points on the rate sensitive assets and liabilities the impact is OMR 15,844 thousand on the Net worth of Maisarah.

6.8. DISPLACED COMMERCIAL RISK

6.8.1. QUALITATIVE DISCLOSURE

1. Displaced Commercial Risk (DCR) refers to the market pressure to pay returns which exceed the rate that has been actually earned on each category of deposit. Reason may be underperforming assets as compared to market rates or commitment to retain customers by giving higher returns. To cater for DCR, to avoid fluctuations in the profits and to cater the risk of future losses, Maisarah maintains a certain percentage of the profits as PER and IRR in accordance with the detailed profit and loss distribution policy.

6.8.2. QUANTITATIVE DISCLOSURE

1. Disclosure of Historical Data Over the Past Years

Details	Position as at				
	Dec 2021 RO'000	Dec 2020 RO'000	Dec 2019 RO'000	Dec 2018 RO'000	Dec 2017 RO'000
Total profits available for sharing	33,588	30,310	26,240	23,498	20,070
Profit available for IAH before smoothing	2,051	1,354	1,136	405	376
Profit paid to IAH after smoothing	1,622	1,065	898	202	201

Details	Position as at				
	Dec 2021 RO'000	Dec 2020 RO'000	Dec 2019 RO'000	Dec 2018 RO'000	Dec 2017 RO'000
PER	30	22	16	11	7
IRR	8	5	4	3	2

2. Five-Year Comparison of Historical Rate of Return with Market Benchmark Rate

No market benchmark rate is available for comparison purpose.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.8. DISPLACED COMMERCIAL RISK (continued)

6.8.2. QUANTITATIVE DISCLOSURE (continued)

3. Five-Year Comparison Between Return to IAHs and Return to Shareholders

Deposit Category	Position as at				
	Dec 2021 RO'000	Dec 2020 RO'000	Dec 2019 RO'000	Dec 2018 RO'000	Dec 2017 RO'000
Investment Account Holders					
Saving accounts (RO)	1.21%	0.57%	0.60%	0.66%	0.95%
Saving accounts (USD)	0.22%	0.19%	-	0.22%	0.19%
Prize Saving Account	0.68%	0.59%	0.61%	0.64%	0.99%
Mudaraba 1-M	-	-	-	-	-
Mudaraba 3-M	-	-	-	-	-
Mudaraba 6-M	-	-	-	-	-
Mudaraba 12-M	-	-	-	-	-
Equity	6.34%	5.86%	5.82%	5.90%	4.23%

4. Profit Appropriated to PER and IRR

Appropriation of profit to PER and IRR is provided under disclosure (ii) of 4.2.2.

5. Analysis of difference between aggregate Mudaraba earned profits and profits distributed

Details	RO'000
Total profits available for distribution to IAH	2,051
- Mudarib fee charged by Maisarah	(418)
- PER	(8)
- IRR	(3)
Profit distributed to IAH	**1,622**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.8. DISPLACED COMMERCIAL RISK (continued)

6.8.2. QUANTITATIVE DISCLOSURE (continued)

6. Analysis of the proportion of the RWA funded by IAH

Details	RWA RO'000	RWA %
Assets		
- Murabaha	3,171	6.55%
- Diminishing Musharaka	30,237	62.45%
- Ijarah Muntahia Bittamleek	1,925	3.98%
- Wakala financing	6,759	13.96%
- Mudaraba financing	6,003	12.40%
- Investment in Sukuk	2	0.00%
- Wakala placement	252	0.52%
- Murabaha and Musawamah inventory	1	0.00%
- Advances to customers	67	0.14%
Total assets funded by IAH (allocated based on proportion)	**48,417**	**100.00%**

6.9. CONTRACT-SPECIFIC RISKS

6.9.1. QUALITATIVE DISCLOSURE

1. For the purpose of various types of Shari'a compliant financing contracts, the Bank assigns the risk-weightage based on the purpose of financing as well as the risk profile of the customer as prescribed in IBRF.

6.9.2. QUANTITATIVE DISCLOSURE

1. RWA Classified by Shari'a Compliant Financing Contracts

Sr.No.	Details	RWA RO'000
1	Murabaha and other receivables	29,829
2	Mudaraba Financings	55,045
3	Ijarah Assets	17,653
4	Diminishing Musharaka Financing	277,275
5	Wakala Financing	61,977
	Total	**441,779**

7. GENERAL GOVERNANCE AND SHARI'A GOVERNANCE DISCLOSURES

7.1. GENERAL GOVERNANCE DISCLOSURES

7.1.1. QUALITATIVE DISCLOSURE

1. Maisarah follows Financial Accounting Standard issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as required by the regulations of the Central Bank of Oman. There had been no departure from the financial reporting framework of AAOIFI during the year.

2. Being the Islamic window operation of the Bank, Maisarah is managed under the same governance structure as the Bank. The details of which are disclosed in the main Pillar III document of the Bank. In addition, Maisarah's operations are governed and monitored by the Shari'a Supervisory Board (SSB) details of which is provided under disclosure 7.2.

3. In the ordinary course of business, Maisarah conducts transactions with some of its Directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

Related parties' transactions	2021 RO'000	2020 RO'000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**635**	517
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**236**	24,458
Other transactions		
Rental payment to a related party	**294**	306
Income from finance to related parties	**19**	19
Profit expense on deposits from related parties	**2**	1,455
Key management compensation		
Salaries and other benefits	**653**	417
End of service benefits	**-**	6

4. Maisarah has always participated in conducting investor / consumer education programs through the year. However, during this year due to pandemic (COVID-19) situation no such program has been conducted.

5. Complaint management of Maisarah customers is handled at the parent entity level through the Guest Relation Department. The department has a written procedures and process whereby it handles the complaints receive through branches, emails, call centers. The complaints are lodged and a proper resolution mechanism in place including escalations as well as follow up with concerned departments and customers.

6. During this year, due to pandemic (COVID-19) situation, Maisarah has conduction only one event. However, the window is committed toward playing an important role in fulfilling its responsibility towards the society by having such events in upcoming years after the pandemic situation.

7. GENERAL GOVERNANCE AND SHARI'A GOVERNANCE DISCLOSURES (continued)

7.2. SHARI'A GOVERNANCE DISCLOSURES

7.2.1. QUALITATIVE DISCLOSURE

1. The most distinct feature of any Islamic bank is its compliance with the principles of Shari'a in all its activities, operations, transactions and investments. To ensure compliance with the rules and principles of Shari'a, Maisarah has a fully independent setup of Shari'a Governance system.

   The Shari'a Compliance and Audit Department have been setup with the purpose of examination and assessment of the extent to which the Institution is observing Shari'a Principles, Fatwas, guidelines and instructions issued by the Shari'a Supervisory Board (SSB) of Maisarah. It also ensures a proper segregation exists between Maisarah and the parent bank with regards to services, products, funds and investments. During 2021, the department has conducted 10 audits as compared to the target of 10. The Unit comes under the direct supervision of SSB. The SSB met 5 times (including 1 meeting with Board of Directors) in the year 2021.

2. Maisarah is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

3. Shari'a rulings issued by the Shari'a Supervisory Board is binding on Maisarah.

7.2.2. QUANTITATIVE DISCLOSURE

1. Violation of Shari'a Compliance During the Year

During the year, Maisarah recorded and transferred to charity the Non Shari'a compliant income of RO 5 thousand in respect of rebate received on nostro accounts, late payments from customers and income from placement with Central Bank.

2. Zakat Contributions of the Islamic Window

In accordance with the Policy of Maisarah, the responsibility to pay Zakat is on the shareholders & IAH.

3. Remuneration of Shari'a Board Members

Details	2021 RO'000	2020 RO'000
Chairman		
- Remuneration proposed	**9**	9
- Sitting fees paid	**3**	2
Other Members		
- Remuneration proposed	**29**	29
- Sitting fees paid	**9**	8

8. BASEL III

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio and net stable funding ratio to CBO with effect from March 2014.

8.1. CAPITAL DISCLOSURE

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
Common Equity Tier 1 Capital: Instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus [Note 1]	70,000	
2	Retained Earnings	20,020	
3	Accumulated other comprehensive income (and other reserves)	-	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
	Public Sector capital injections grandfathered until 1 January 2018	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	-	
6	**Common Equity Tier 1 Capital before regulatory adjustments**	90,020	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments	2,213	
8	Goodwill (net of related tax liability) *	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability) *	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash Flow hedge reserve	-	
12	Shortfall of provisions to expected loss	-	
13	Securitization gain on sale (as set out in para 14.9 of CP-1)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross holdings in common equity	-	
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments		Amount Subject to Pre-Basel III treatment
		(RO '000)	
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold)	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	
	Regulatory adjustments applied to common equity Tier 1 in respect of amount subject to pre-Basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
27	Regulatory adjustments applied to common equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to common equity Tier 1**	2,213	
29	**Common Equity Tier 1 capital (CET 1)**	87,807	
Additional Tier 1 Capital: Instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards		
33	Directly issued capital instruments subject to phase out from Additional Tier 1		
34	Additional Tier 1 instruments (and CET 1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT 1)		
35	of which: instruments issued by subsidiaries subject to phase out		
36	**Additional Tier 1 capital before regulatory adjustments**	-	

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments			Amount Subject to Pre-Basel III treatment
		(RO '000)	
Additional Tier 1 Capital: Regulatory Adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments	-	
	Regulatory adjustments applied to Additional Tier 1 in respect of amount subject to pre-Basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1**	-	
44	**Additional Tier 1 capital (CET 1)**	-	
45	**Tier 1 capital (T1 = CET 1 + AT 1)**	87,807	
Tier 2 capital: Instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	
48	Tier 2 instruments (and CET 1 and AT 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out		
50	Provisions and Cumulative fair value gains on available for sale instruments	7,031	
51	**Tier 2 capital before regulatory adjustments**	7,031	
Tier 2 capital: Regulatory Adjustments			
52	Investments in own Tier 2 instruments	-	

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments			Amount Subject to Pre-Basel III treatment
		(RO '000)	
53	Reciprocal cross holdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
55	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
	Regulatory adjustments applied to Tier 2 in respect of amount subject to pre-Basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
57	**Total Regulatory Adjustments to Tier 2 capital**	-	
58	**Tier 2 Capital (T 2)**	7,031	
59	**Total Capital (TC = T 1 + T 2)**	94,838	
	Risk Weighted Assets in respect of amounts subject to pre-Basel III treatment		
	of which: (insert name of adjustment)		
	of which: (insert name of adjustment)		
60	**Total Risk Weighted Assets (60a + 60b + 60c)**	628,942	
60a	of which: Credit Risk Weighted Assets	551,627	
60b	of which: Market Risk Weighted Assets	13,538	
60c	of which: Operational Risk Weighted Assets	63,777	
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	13.96%	
62	Tier 1 (as a percentage of risk weighted assets)	13.96%	
63	Total capital (as a percentage of risk weighted assets)	15.08%	
64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/ D-SIB buffer requirements expressed as a percentage of risk weighted assets)	8.25%	
65	of which: capital conservation buffer requirement	1.25%	

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments			Amount Subject to Pre-Basel III treatment
		(RO '000)	
66	of which: bank specific countercyclical buffer requirement	0.00%	
67	of which: D-SIB/ G-SIB buffer requirements	0.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	5.71%	
National Minima (if different from Basel III)			
69	National common equity Tier 1 minimum ratio (if different from Basel III minimum)	NA	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	NA	
71	National total capital minimum ratio (if different from Basel III minimum)	NA	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	7,031	
77	Cap on inclusion of provisions in Tier 2 under standardized approach	6,895	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET 1 instruments subject to phase out arrangements	NA	
81	Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	NA	
82	Current cap on AT 1 instruments subject to phase out arrangements	NA	
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	NA	
84	Current cap on T 2 instruments subject to phase out arrangements	NA	
85	Amount excluded from T 2 due to cap (excess over cap after redemptions and maturities)	NA	

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Summarized Capital Adequacy is as follows:

	CA Report 1 (For CBO Use only)	RO ' 000
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	90,020
2	Regulatory Adjustments to CET1	2,213
3	CET1	87,807
4	Additional Tier 1 Capital (AT1) before Regulatory Adjustments	-
5	Regulatory Adjustments to AT1	-
6	AT1	-
7	Tier 1 Capital (7=3+6) (minimum at 0.625%)	87,807
8	Tier 2 Capital before Regulatory Adjustments	7,031
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	7,031
11	Total Capital (11=7+10)	94,838
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	628,942
13	Credit Risk Weighted Assets	551,627
14	Market Risk Weighted Assets	13,538
15	Operational Risk Weighted Assets	63,777
16	CET1 (as a percentage of TRWA) (in %)	13.96
17	Tier 1 (as a percentage of TRWA) (in %)	13.96
18	Total capital (as a percentage of TRWA) (in %)	15.08

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation:			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2021	As at Period End - 31.12.2021	
Assets			
Cash & Balances with CBO	**23,729**		
Balances with bank and money at call and short notice	**13,831**		
Investments:	**80,112**		
Of which Held to Maturity			
Out of investments in Held to Maturity:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which Available for Sale	80,112		
Out of investments in Available for Sale:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which Held for Trading			
Loans & Advances	**501,255**		
Of which,			
Loans & Advances to domestic banks			
Loans & Advances to Non-Resident Banks			
Loans & Advances to domestic customers	485,320		
Loans & Advances to Non-Resident Customers for domestic operations			
Loans & Advances to Non-Resident Customers for operations abroad			
Loans & Advances to SMEs	15,935		

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation:			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2021	As at Period End - 31.12.2021	
Financing from Islamic Banking Window			
Fixed Assets	**1,065**		
Other Asset	**68,769**		
Of which,			
Goodwill & Intangible Assets			a
Out of which			
Goodwill			
Other Intangibles (excluding MSRs)			
Deferred Tax Assets			
Goodwill on Consolidation			
Debit balance in Profit & Loss Account			
Total Assets	**688,761**	-	
Capital & Liabilities			
Paid up capital	**70,000**		
of which:			
Amount eligible for CET 1	70,000		h
Amount eligible for AT1	-		if
Reserves & Surplus			j
Share Premium	-		k
Legal Reserve	-		l
Subordinated loan reserve	-		m

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation:			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2021	As at Period End - 31.12.2021	
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I)	(1,911)	(2,213)	n
Retained Earnings (The proposed dividend payment amount is excluded from retained earnings)	20,020	20,020	o
Total Capital	**88,109**		
Deposits	**437,017**		
Of which,			
Deposit from Banks			
Customer Deposits	437,017		
Deposit of Islamic Banking Window	-		
Other deposits - (Please specify)			
Borrowings	**97,784**		
Of which,			
From CBO			
From Banks (includes borrowing from HO)	97,784		
From other Institutions & Agencies			
Borrowings in the form of bonds, debentures & Sukuks			
Others (Please specify) (Subordinated Loans)			
Other liabilities & provisions	**65,851**		
Of which,			
DTLs related to goodwill			
DTLs related to intangible assets			
Total Liabilities	**688,761**	**18,108**	

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Common Equity Tier 1 capital: instruments and reserves			
Sr. No.		Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus 'Allocated Capital to Window from Core Capital'	70,000	h
2	Retained earnings	20,020	k,l,m,o
3	Accumulated other comprehensive income (and other reserves)		
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory adjustments	90,020	
7	Prudential valuation adjustments	(2,213)	n
8	Goodwill (net of related tax liability)	-	a

8.2. LIQUIDITY COVERAGE RATIO

MIBS has also adopted Basel III liquidity standards and is estimating the liquidity coverage ratio (LCR). The LCR is defined as the proportion of high-quality liquid assets to total net cash outflows over the next 30 days. The high-quality liquid assets include cash; reserves held with CBO; investment in CBO Certificate of Deposits, CBO Treasury Bills, Government Sovereign Sukuk and Sovereign Treasury Bills. LCR is a measure of adequacy of liquid assets that will enable the Bank to survive an acute stress scenario lasting for 30 days.

8. BASEL III (continued)

8.2. LIQUIDITY COVERAGE RATIO (continued)

The disclosure Liquidity Coverage Ratio for Maisarah is as follows:

Sl. No.		Total Unweighted Value (annual average) OMR '000	Total Weighted Value (annual average) OMR '000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		86,748
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	69,648	4,948
3	Stable deposits	37,714	1,754
4	Less stable deposits	31,933	3,193
5	Unsecured wholesale funding, of which:	161,516	71,403
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	161,516	71,403
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which	20,008	1,772
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	20,008	1,772
14	Other contractual funding obligations	7,470	7,470
15	Other contingent funding obligations	50,580	2,529
16	**TOTAL CASH OUTFLOWS**		**88,121**
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	85,397	23,945
19	Other cash inflows	19,210	19,210
20	**TOTAL CASH INFLOWS**	**104,607**	**43,155**
			Total Adjusted Value
21	**TOTAL HQLA**		**82,904**
22	**TOTAL NET CASH OUTFLOWS**		**44,966**
23	**LIQUIDITY COVERAGE RATIO (%)**		**184.37%**

8. BASEL III (continued)

8.2. LIQUIDITY COVERAGE RATIO (continued)

The above disclosed values for high quality liquid assets, cash outflows and cash inflows are the arithmetic average of the values for the last 12 months.

The LCR position for Maisarah as at 31 December 2021 is 312.84% (2020: 511.95%).

Further to the above, LCR is also monitored for US Dollar book of the Bank as a Consolidated entity and Maisarah on standalone basis. The exposure in US Dollar assets as a proportion of total assets (all currencies) at the Maisarah level is at 7.1% as at 31 December 2021 as compared to 5.2% as at 31 December 2020.

8.3. NET STABLE FUNDING RATIO

In terms of CBO guidelines, the standard for NSFR has become effective from 1 January 2018, with a minimum ratio of 100%. Bank has adopted Basel III liquidity standards and is reporting the Net Stable Funding Ratio to the Central Bank of Oman (CBO) with effect from March 2013. The NSFR is defined as the proportion of total Available Stable Funding to total Required Stable funding over the next 1 year.

8. BASEL III (continued)

8.3. NET STABLE FUNDING RATIO (continued)

The disclosure for Net Stable Funding Ratio for Maisarah is as follows:

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
1	Capital:	252,474	252,474	-	-	252,474
2	Regulatory capital	84,884				84,884
3	Other capital instruments	167,590				167,590
4	Retail deposits and deposits from small business customers:	73,237	8,355	11,288	-	85,632
5	Stable deposits	39,511	714	557		38,744
6	Less stable deposits	33,726	7,641	10,731		46,888
7	Wholesale funding:	107,734	56,259	48,856	106,424	106,424
8	Operational deposits	-				-
9	Other wholesale funding	107,734	56,259	48,856		106,424
10	Liabilities with matching interdependent assets					-
11	Other liabilities:					
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	71,149				-
14	**Total ASF**					**444,530**
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)					3,070
16	Deposits held at other financial institutions for operational purposes	617				3 08
17	Performing loans and securities:	-	11,364	114,400	242,312	363,462

8. BASEL III (continued)

8.3. NET STABLE FUNDING RATIO (continued)

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
18	Performing loans to financial institutions secured by Level 1 HQLA		-			-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions			-		-
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which		11,364	114,400		58,905
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					
22	Performing residential mortgages, of which:				225,224	191,440
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				151,680	98,592
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities				17,088	14,525
25	Assets with matching interdependent liabilities					
26	Other Assets:	-	-		25,919	25,919
27	Physical traded commodities, including gold					-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					-

8. BASEL III (continued)

8.3. NET STABLE FUNDING RATIO (continued)

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
30	NSFR derivative liabilities before deduction of variation margin posted					-
31	All other assets not included in the above categories				25,919	25,919
32	Off-balance sheet items					3,562
33	**TOTAL RSF**					**396,321**
34	**NET STABLE FUNDING RATIO (%)**					**112.16%**

The above disclosed values for required stable funding and the available stable funding are the arithmetic average of the values for the last 12 months reflecting average during the year 2021. The NSFR is computed on a monthly basis and year end position for Maisarah as at 31 December 2021 was at 126.34% (2020: 104.07%).

MAISARAH INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENT

31st DECEMBER 2021

pwc

Independent Auditor's Report to the Board of Directors of Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - Window

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements present fairly, in all materials respects, the financial position of the Maisarah Islamic Banking Services - Window ('the Window') of Bank Dhofar SAOG ('the Bank') as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman ("CBO").

What we have audited

The financial statements comprise:
- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in owners' equity for the year then ended;
- the statement of sources and uses of charity fund for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Window in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics for Accountants and Auditors of Islamic Financial Institutions.

Emphases of matter

We draw attention to the fact that, as described in note 1, the Window of the Bank is not a separate legal entity. These financial statements, therefore, represent the Maisarah Islamic Banking Services - Window which is not a separate stand-alone legal entity. We also draw attention to note 3.22 whereby taxation in respect of the results of the Window are borne by the Bank and not recharged to the Window. Our opinion is not modified with respect to these matters.

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Independent Auditor's Report to the Board of Directors of Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - Window (continued)

Other information

The Bank's Board of Directors are responsible for the other information. The other information comprises the annual report of the Shari'a Supervisory Board, Management Discussion and Analysis Report and 2021 Disclosure Requirements under Pillar III of Basel II (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Bank's Board of Directors for the financial statements

These financial statements and the Window's undertaking to operate in accordance with Islamic Shari'a Rules and Principles, as determined by the Shari'a Supervisory Board, are the responsibility of the Bank's Board of Directors.

The Bank's Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the Financial Accounting Standards issued by the AAOIFI as modified by the CBO and the relevant requirements of the CBO, and for such internal control as the Bank's Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Window's financial reporting process.

Independent Auditor's Report to the Board of Directors of Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - Window (continued)

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

Independent Auditor's Report to the Board of Directors of Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - Window (continued)

Report on other legal and regulatory and Shari'a requirements

As required by clause no. 1.4.3 of Title 3 'Accounting Standards and Auditor Reports' of Islamic Banking Regulatory Framework, we report that, we have:

a) received all required information and explanations to prepare the report; and
b) carried out any other procedures considered necessary as required by AAOIFI and the Central Bank of Oman.

Further we report that the Window has complied with the Islamic Shari'a Principles and Rules as determined by the Sharia' Supervisory Board of the Window during the period under audit.

PricewaterhouseCoopers

Muscat, Sultanate of Oman
3 March 2022

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C.R. No 1230865
PricewaterhouseCoopers LLC

Statement of Financial Position

For the year ended 31 December 2021

2021 USD'000	2020 USD'000		Note	20201 RO'000	2020 RO'000
		Assets			
61,634	38,501	Cash and balances with Central Bank of Oman	5	**23,729**	14,823
35,922	22,959	Due from banks and financial institutions	6	**13,830**	8,839
75,143	61,917	Murabaha and other receivables	7	**28,930**	23,838
45,655	34,083	Mudaraba financing	8	**17,577**	13,122
877,390	882,995	Diminishing Musharaka financing	9	**337,795**	339,953
207,694	207,444	Investments	10	**79,962**	79,866
159,582	134,785	Wakala	11	**61,439**	51,892
116,628	120,039	Ijarah Muntahia Bittamleek	12	**44,902**	46,215
1,023	1,236	Property and equipment	13	**394**	476
1,743	1,317	Intangibles	14	**671**	507
176,391	101,275	Other assets	15	**67,911**	38,991
1,758,805	1,606,551	**Total assets**		**677,140**	618,522
		Liabilities, quasi equity and owners' equity			
		Liabilities			
59,192	257,179	Current accounts	16	**22,789**	99,014
-	261,818	Due to banks	17	**-**	100,800
98,075	96,117	Qard Hasan from Head office	18	**37,759**	37,005
-	573,486	Customer Wakala term deposits		**-**	220,792
140,759	73,785	Other liabilities	19	**54,192**	28,407
298,026	1,262,385	**Total liabilities**		**114,740**	486,018
		Quasi equity			
155,909	-	Wakala inter bank deposits	20	**60,025**	-
908,533	-	Wakala customer deposits	21	**349,785**	-
167,483	138,917	Equity of investment accountholders	22	**64,481**	53,483
1,231,925	138,917	**Total quasi equity**		**474,291**	53,483
		Owners' equity			
181,818	181,818	Allocated share capital	23	**70,000**	70,000
(4,964)	(5,397)	Investment revaluation reserve		**(1,911)**	(2,078)
52,000	28,828	Retained earnings		**20,020**	11,099
228,854	205,249	**Total owners' equity**		**88,109**	79,021
1,758,805	1,606,551	**Total liabilities, quasi equity and owners' equity**		**677,140**	618,522
52,452	76,247	**Contingent liabilities excluding financing and capital commitments**	32(a)	**20,194**	29,355

The financial statements including notes and other information on pages 320 to 397 were approved by the Board of Directors on 27 January 2022 for issue in accordance with a resolution of Board of Directors and signed on their behalf by:

Chairman

Chief Islamic Banking Officer

Independent auditors report – Page 309 - 312

Statement of Comprehensive Income

For the year ended 31 December 2021

2021 USD'000	2020 USD'000		Note	20201 RO'000	2020 RO'000
		Income			
75,184	70,086	Income from Islamic finances and receivables	25	**28,946**	26,983
11,868	8,582	Income or gains / losses from investments	26	**4,569**	3,304
190	60	Income on Wakala placements		**73**	23
87,242	78,728			**33,588**	30,310
		Less:			
(4,213)	(3,499)	Return on equity of investment accountholders before Maisarah's share as Mudarib		**(1,622)**	(1,347)
1,086	732	Maisarah's share as Mudarib		**418**	282
(31,626)	(30,990)	Return on customer Wakala deposits	27	**(12,176)**	(11,931)
(4,618)	(4,917)	Return on inter bank Wakala deposit		**(1,778)**	(1,893)
(39,371)	(38,674)			**(15,158)**	(14,889)
47,871	40,054	**Maisarah's share in income from investment as a Mudarib and Rabul Maal**		**18,430**	15,421
3,613	4,122	Revenue from banking services		**1,391**	1,587
280	343	Foreign exchange gain – net		**108**	132
538	538	Other revenues		**207**	207
52,302	45,057	**Total revenue**		**20,136**	17,347
(15,862)	(13,408)	Staff costs	28	**(6,107)**	(5,162)
(5,899)	(4,914)	General and administrative expenses	29	**(2,271)**	(1,892)
(1,068)	(1,184)	Depreciation and amortisation	13,14	**(411)**	(456)
(22,829)	(19,506)	**Total expenses**		**(8,789)**	(7,510)
(6,301)	(8,637)	Net impairment on financial instruments	30.3	**(2,426)**	(3,325)
23,172	16,914	**Profit for the year**		**8,921**	6,512
		Other comprehensive income for the year			
		Items that are or may not be reclassified to profit or loss			
433	(5,626)	Income / (loss) from change in fair value of Debt instrument through equity	10	**167**	(2,166)
433	(5,626)	**Other comprehensive income / (loss) for the year**		**167**	(2,166)
23,605	11,288	**Total comprehensive income for the year**		**9,088**	4,346

The attached notes on pages 320 to 397 form an integral part of these financial statements.

Independent auditors report – Page 309 - 312

Statement of changes in owners' equity

For the year ended 31 December 2021

	31 December 2021			
	Allocated share capital RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
Balance at 31 December 2020	**70,000**	**(2,078)**	**11,099**	**79,021**
Transfer of retained earnings to Head Office	-	-	-	**-**
Allocation of capital	-	-	-	**-**
Total comprehensive income for the year				
Net profit for the year	-	-	8,921	**8,921**
Other comprehensive income for the year				
Fair value change on debt investments through equity	-	167	-	**167**
Total comprehensive income	-	167	8,921	**9,088**
Balance as at 31 December 2021	**70,000**	**(1,911)**	**20,020**	**88,109**

	31 December 2021			
	Allocated share capital USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000
Balance at 31 December 2020	**181,818**	**(5,397)**	**28,828**	**205,249**
Transfer of retained earnings to Head Office	-	-	-	**-**
Allocation of capital	-	-	-	**-**
Total comprehensive income for the year				
Net profit for the year	-	-	23,172	**23,172**
Other comprehensive income for the year				
Fair value change on debt investments through equity	-	433	-	**433**
Total comprehensive income	-	433	23,172	**23,605**
Balance as at 31 December 2021	**181,818**	**(4,964)**	**52,000**	**228,854**

Statement of changes in owners' equity

For the year ended 31 December 2021

	31 December 2020			
	Allocated share capital RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
Balance at 31 December 2019	55,000	88	19,587	74,675
Transfer of retained earnings to Head Office	-	-	(15,000)	(15,000)
Allocation of capital	15,000	-	-	15,000
Total comprehensive income for the year				
Net profit for the year	-	-	6,512	6,512
Other comprehensive (loss) for the year				
Fair value change on debt investments through equity	-	(2,166)	-	(2,166)
Total comprehensive income	-	(2,166)	6,512	4,346
Balance as at 31 December 2020	70,000	(2,078)	11,099	79,021

	31 December 2020			
	Allocated share capital USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000
Balance at 31 December 2019	142,857	229	50,875	193,961
Transfer of retained earnings to Head Office	-	-	(38,961)	(38,961)
Allocation of capital	38,961	-	-	38,961
Total comprehensive income for the year				
Net profit for the year	-	-	16,914	16,914
Other comprehensive (loss) for the year				
Fair value change on debt investments through equity	-	(5,626)	-	(5,626)
Total comprehensive income	-	(5,626)	16,914	11,288
Balance as at 31 December 2020	181,818	(5,397)	28,828	205,249

The attached notes on pages 320 to 397 form an integral part of these financial statements.

Independent auditors report – Page 309 - 312

Statement of sources and uses of charity fund

For the year ended 31 December 2021

2021 USD'000	2020 USD'000		20201 RO'000	2020 RO'000
		Sources of charity funds		
17	13	Undistributed charity funds at beginning of the year	**7**	5
13	17	Shari'a non-compliant income	**5**	7
30	30	Total sources of funds during the year	**12**	12
		Uses of charity funds		
(17)	(13)	Distributed to charity organizations	**(7)**	(5)
(17)	(13)	Total uses of funds during the year	**(7)**	(5)
13	17	**Undistributed charity funds at end of the year**	**5**	7

Statement of Cash Flows

For the year ended 31 December 2021

2021 USD'000	2020* USD'000		20201 RO'000	2020* RO'000
		Cash flows from operating activities		
23,172	16,914	Profit for the year	**8,921**	6,512
		Adjustments for:		
1,068	1,184	Depreciation and amortisation	**411**	456
7,961	7,151	Depreciation on Ijarah assets	**3,065**	2,753
(13)	-	Gain on sale of property and equipment	**(5)**	-
6,301	8,637	Net impairment on financial instruments	**2,426**	3,325
130	169	Amortisation of premium on investment	**50**	65
29	19	Profit equalisation reserve and Investment risk reserve	**11**	7
38,648	34,074	**Operating profit before changes in operating assets and liabilities**	**14,879**	13,118
		Operating assets and liabilities:		
(13,488)	(11,262)	Murabaha and other receivables	**(5,193)**	(4,336)
(4,868)	(8,475)	Ijarah Muntahia Bittamleek assets	**(1,874)**	(3,263)
(8)	340	Proceeds from sale of Ijarah Muntahia Bittamleek assets	**(3)**	131
997	(54,442)	Diminishing Musharaka financing	**384**	(20,960)
(11,657)	14,455	Mudaraba financing	**(4,488)**	5,565
(24,901)	(31,187)	Wakala	**(9,587)**	(12,007)
(14,571)	(26,106)	Other asset	**(5,610)**	(10,050)
5,826	(10,762)	Other liabilities	**2,243**	(4,143)
1,712	3,405	Qard Hasan from Head Office (operational activities)	**659**	1,311
(22,310)	(89,960)	**Net cash used in operating activities**	**(8,590)**	(34,634)
		Cash flows from investing activities		
-	(93,514)	Purchase of investments	**-**	(36,003)
-	42,501	Sale proceed from maturity of investments	**-**	16,363
(356)	(662)	Purchase of property and equipment	**(137)**	(255)
(925)	(979)	Acquisition of intangibles	**(356)**	(377)
(1,281)	(52,654)	**Net cash used in investing activities**	**(493)**	(20,272)

Statement of Cash Flows

For the year ended 31 December 2021

2021 USD'000	2020* USD'000		20201 RO'000	2020* RO'000
		Cash flows from financing activities		
(4,442)	(35,023)	Current account	**(1,710)**	(13,484)
(105,909)	151,818	Due to banks	**(40,775)**	31,900
-	25,974	Qard Hasan from Head Office (financing activities)	**-**	10,000
141,501	(84,706)	Customer Wakala deposit	**54,478**	(32,612)
28,538	36,719	Unrestricted investment accountholders	**10,987**	14,137
59,688	94,782	**Net cash generated from financing activities**	**22,980**	9,941
36,097	(47,832)	**Increase / (Decrease) in cash and cash equivalents**	**13,897**	(44,965)
61,462	109,294	Cash and cash equivalents at the beginning of the year	**23,663**	68,628
97,559	61,462	Cash and cash equivalents at the end of the year	**37,560**	23,663
		Cash and cash equivalents at the end of the year comprise:		
61,634	38,501	Cash and balances with CBO	**23,729**	14,823
35,925	22,961	Due from banks and financial institutions	**13,831**	8,840
97,559	61,462		**37,560**	23,663

During the year ended 31 December 2021, there were no principal non-cash transactions.

*Please refer to note 38 for changes to corresponding amounts.

The attached notes on pages 320 to 397 form an integral part of these financial statements.

Independent auditors report – Page 309 - 312

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services ("Maisarah") was established in the Sultanate of Oman as window of BankDhofar SAOG ("the Bank"). Maisarah's operations commenced on 3 March 2013 and it currently operates through 10 (2020: 10) branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

The principle activities of Maisarah is taking Shari'a compliant demand, saving and time deposit accounts, providing Murabaha finance, Ijarah financing and other Shari'a 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.

Maisarah's activities are regulated by the Central Bank of Oman ("CBO") and supervised by Shari'a Supervisory Board ("SSB") comprising of five members.

The window is not a separate legal entity. The assets and liabilities presented within the window remain the assets and liabilities of the Bank and are not legally separable from the Bank's other assets and liabilities. As such legally, the assets of the window may be available to the other claims of the Bank. The separate financial statements of Islamic Banking Window have been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of Islamic Banking Regulatory Framework (IBRF) issued by CBO.

2. BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the IBRF issued by CBO, the financial statements of Maisarah Islamic Banking Services are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI") as modified by CBO for impairment of financing and other receivables, and investments (refer note 3.10); the Shari'a rules and principles as determined by the SSB of Maisarah; and the applicable laws and regulations issued by the CBO.

Maisarah complies with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, Maisarah uses the relevant International Financial Reporting Standards ("IFRS") or International Accounting Standards ("IAS") as issued by International Accounting Standards Board ("IASB") provided the application does not lead to a conflict with the principles of Shari'a.

These financial statements pertain to the Maisarah operations only and do not include financial results of the Bank. Statement of changes in restricted investment amount, statement of sources of funds in Zakah and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Maisarah's operations. Complete set of financial statements of the Bank is presented separately.

2.2 Basis of measurement

The financial statements are prepared on a historical cost basis, except for certain investments carried at fair value through equity.

2.3 Functional and presentation currency

Items included in Maisarah's financial statements are presented and measured using Rials Omani ("RO") which is the currency of the primary economic environment in which Maisarah operates. All financial information presented in Rial Omani has been rounded to the nearest thousands, unless mentioned otherwise.

2. BASIS OF PREPARATION (continued)

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with AAOIFI and IFRS requires management to make judgments, 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 recognised 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.

2.5 Change in accounting policy

Except for the changes resulting from the adoption of below standard(s) from 1 January 2021, the accounting policies applied in these financial statements are the same as those applied in the last financial statements.

2.5.1 FAS 30 Impairment, credit losses and onerous commitments

Maisarah has adopted FAS 30 Impairment, credit losses and onerous commitments effective from the financial periods beginning on January 2021. For previous period, based on the CBO earlier issued circular 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments Standard (IFRS 9) for all the banks, which also applied to Islamic banks / windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, Maisarah had adopted the IFRS 9 for estimating impairment and credit losses. Since Maisarah has already applied IFRS 9 for estimating impairment and credit losses on or before December 2020; and has assessed that all financing, investment and receivable from customers are subject to credit risk, therefore, the adoption of FAS 30 has not resulted in changes.

2.5.2 FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)

Maisarah has adopted FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) effective from the financial periods beginning on January 2021. Changes in accounting policies resulting from the adoption of FAS 31 have been applied prospectively as described below:

Comparative periods have not been restated. Differences in the carrying amounts of assets and liabilities resulting from the adoption of the standard are recognised as at 1 January 2021. Accordingly, the information presented for 2020 does not reflect the requirements of FAS 31 and therefore is not comparable to the information presented for 2021.

- Following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
    - o designation of Wakala assets under Wakala venture classification criteria and remeasurement of carrying amount after including the profit receivable amount.
    - o designation of Wakala deposits under on-balance accounting approach and classified as quasi-equity, without having an impact on the carrying amount.
- The below table reconciles the carrying amount of financial statements in accordance with applicable accounting policies as at 31 December 2020 and 1 January 2021:

2. BASIS OF PREPARATION (continued)

2.5 Change in accounting policy (continued)

2.5.2 FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) (continued)

	31 December 2020 RO'000	Re-measurement / Re-classification RO'000	1 January 2021 RO'000
Wakala	51,892	1,388	53,280
Other assets	38,991	(1,388)	37,603
Current accounts	99,014	(74,515)	24,499
Due to banks	100,800	(100,800)	-
Customer Wakala term deposits	220,792	(220,792)	-
Wakala inter bank deposits	-	100,800	100,800
Wakala customer deposits	-	295,307	295,307

The increase in Wakala of RO 1,388 thousand and corresponding decrease in other assets comprises of the following:

- o Profit receivable for Wakala – RO 1,391 thousand
- o ECL on accrued profit for Wakala – RO 1 thousand
- o Profit suspended on Wakala – RO 2 thousand

2.5.3 FAS 32 Ijara

Maisarah has adopted FAS 32 Ijara effective from the financial periods beginning on January 2021. Upon the adoption of the standard there is no material impact on Maisarah's financial statements. The objective of this standard is to establish the set-out principles for the classification, recognition, measurement, presentation and disclosures of Ijarah transactions including their different forms entered into by the Islamic financial institutions in the capacity of both the lessor and lessee. This standard brings a fundamental shift in the accounting approach for Ijarah transactions, particularly, in the hand of the lessee in contrast to the earlier approach of the off-balance sheet accounting for Ijarah.

2.5.4 FAS 33 Investment in Sukuk, shares and similar instruments

Maisarah has adopted FAS 33 Investment in Sukuk, shares and similar instruments effective from the financial periods beginning on January 2021. FAS 33 has superseded the earlier FAS 25 "Investment in Sukuks, shares and similar instruments". Changes in disclosure resulting from the adoption of FAS 33 have been applied as described below:

a) Separate classification of income or gains / losses from investments:

2. BASIS OF PREPARATION (continued)

2.5 Change in accounting policy (continued)

2.5.4 FAS 33 Investment in Sukuk, shares and similar instruments (continued)

The income or gains / losses from investment were previously presented under income from Islamic finances and investments amounting to RO 3,304 thousand respectively. These are currently reclassified and presented as a separate line item in the statement of income.

The objective of the standard is to set out improved principles for classification, recognition, measurement, presentation and disclosure of investments in Sukuk, shares and other similar instruments of investment made by Islamic Financial Institutions in line with Shari'a principles. It defines the key types of instruments of Shari'a compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held.

2.5.5 FAS 34 Financial reporting for Sukuk-holders

Maisarah has adopted FAS 34 Financial reporting for Sukuk-holders effective from the financial periods beginning on January 2021. Upon the adoption of the standard there is no impact on Maisarah's financial statements. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting for all stakeholders particularly Sukuk-holders.

2.5.6 FAS 35 Risk Reserves

Maisarah has adopted FAS 35 Risk Reserves effective from the financial periods beginning on January 2021. Upon the adoption of the standard there is no significant impact on Maisarah's financial statements. This standard along with FAS 30 'Impairment, Credit losses and onerous commitments' has superseded the earlier FAS 11 "Provisions and reserves". The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions. The standard defines the accounting principles for risk reserves in line with the best practices of financial reporting and risk management.

2.6 New standards, interpretations and amendments

For the year ended 31 December 2021, Maisarah has adopted all the new and revised amendments in standards issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2021.

Standards issued and effective from 1 January 2021

The Islamic window has applied the following standards and amendments for the first time for its annual reporting period commencing from 1 January 2021:

- FAS 30 – Impairment, Credit losses and onerous commitments
- FAS 31 – Investment Agency (Al-Wakala Bi Al-Istithmar)
- FAS 32 – Ijara
- FAS 33 – Investment in Sukuk, shares and similar instruments
- FAS 34 – Financial reporting for Sukuk-holders
- FAS 35 – Risk Reserves

2. BASIS OF PREPARATION (continued)

2.6 New standards, interpretations and amendments (continued)

Standards issued but not effective from 1 January 2021

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 disclosures in relation to Shari'a compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard applies to accounting and financial reporting for all transactions involving Wa'ad, Khiyar or Tahawwut arrangements carried out under Shari'a principles and rules. The standard will be effective from the financial periods beginning on or after 1 January 2022 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

FAS 1 General Presentation and Disclosures in the Financial Statements

AAOIFI has issued FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. The objective of this standard is to ensure the requirement of Islamic financial institution to publish periodic financial statements to satisfy the common information needs of the users, as described in the conceptual framework. This standard sets out the overall requirements for presentation of financial statements, the minimum requirements for the contents of the financial statements and a recommended structure of financial statements that facilitate faithful presentation in line with Sharia' principles and rules and comparability with the institution's financial statements of previous periods, and the financial statements of other institutions. This standard applies to the financial statements of the institutions desirous to prepare information for Shari'a compliant products and services to meet the information needs of the users of such statements. The standard will be effective from the financial periods beginning on or after 1 January 2023 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

FAS 39 Zakah

AAOIFI has issued FAS 39 Zakah in 2021. The objective of this standard is to establish the principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial institution. This standard applies to an institution with regard to the recognition, presentation and disclosure of Zakah attributable to relevant stakeholders. The standard will be effective from the financial periods beginning on or after 1 January 2023 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

FAS 40 Financial Reporting for Islamic Finance Windows

AAOIFI has issued FAS 40 Financial Reporting for Islamic Finance Windows in 2021. The objective of this standard is to establish financial reporting requirements for Islamic financial services offered by conventional financial institutions (in form of Islamic finance windows). This standard applies to all conventional financial institutions providing Islamic financial services through an Islamic finance window. The standard will be effective from the financial periods beginning on or after 1 January 2024 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah'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 statement of profit or loss.

3.2 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances with Central Bank of Oman, due from banks and highly liquid financial assets with original maturities of up to three months, which are subject to insignificant risk of changes in their fair value, and are used by the Maisarah in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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 or religious 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 in accordance with Shari'a principles and guidelines.

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

3.4 Murabaha and other receivables

Murabaha and Musawama receivables are stated net of deferred profits, any amounts written off and provision for expected credit losses, if any.

In these transactions, the Bank purchases the goods and after taking the possession, sells them to the customer on cost plus profit basis. Unlike Murabaha, it is not necessary to disclosure the profit element to the customer in Musawama.

Murabaha and Musawama receivables are sales on spot / deferred payment terms. The Bank arranges a transaction by buying goods (which represents the object of underlying contract) and then sells these goods to Customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is paid in instalments by the Customer over the agreed period. (Promise made in the Murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the Murabaha to the purchase orderer as obligatory).

Credit card receivable is based on the Islamic financial principle of profit-free Qard Hasan whereby the customer is required to repay the disbursed amount without any profit. In addition, the customer will be charged a monthly fees which could be waived off at the discretion of bank. Other receivable also include travel and education finance which is based on the Islamic financial principle of Service Ijarah where by the Bank purchases the service from service providers and then leases that service to the customer for an agreed service charge.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Mudaraba

Mudaraba is stated at the fair value of consideration given less any expected credit losses.

Mudaraba is a partnership in profit whereby one party provides capital (Rab al-maal) and the other party provides labour (Mudarib).

In case Mudaraba capital is lost or damaged without misconduct or negligence on the part of Mudarib, then such losses are deducted from Mudaraba capital and are treated as loss to the Bank. In case of termination or liquidation, unpaid portion by Mudarib is recognised as receivable due from Mudarib.

3.6 Diminishing Musharaka

Diminishing Musharaka is a contract, based on Shirkat-ul-Mulk, between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to a customer (at carrying value). The use of Bank's share to the customer is based on an Ijarah agreement. Diminishing Musharaka is stated at the fair value of the consideration given, less any expected credit losses.

3.7 Wakala

Wakala is a contract where the Muwakil will enter into the Wakala agreement with the Wakil and establish a contractual and commercial relations between the parties by providing Wakala capital (Ras al Mal) to be utilized in customer's core business. The Wakil provides specialist work using its skill to manage the business. Maisarah enters into the Wakala agreement with the customer both as a principal and as an agent.

3.7.1 Investment Agency as a Principal

Investments made by Maisarah under investment agency instrument are accounted for under the Wakala venture approach based on the premise that the assets change frequently and hence the objective is not actually to hold a single asset through an agent and rather the intention is to maintain a revenue stream through series of investments.

Maisarah initially recognizes the investment made as an investment in Wakala venture at cost, at the time when it is made available to the agent for investment. In case the where the investment is made available to the agent, but the contract is yet to be initiated, such amount is represented as an Advance against investment in Wakala venture.

The investment in a Wakala venture is measured at the end of a financial period at carrying amount and is adjusted to include the investor's share in the profit or loss of the Wakala venture, net of any agent's remuneration payable as of that date. At the end of each period end, impairment in the value of investment in Wakala venture is determined in accordance with impairment policy under 3.10.

3.7.2 Investment Agency as an Agent

Deposits obtained from customers under the investment agency arrangement are recognized under on-balance sheet approach whereby, since the agent (Maisarah) controls the related assets and hence records the assets and related income and expenditure in the books of account.

Maisarah recognizes the deposits obtained under the investment agency arrangement as a quasi-equity instrument for accounting purpose, as the investment agency instrument is subordinated to all liabilities of the agent, but the same is neither perpetual nor convertible to ordinary share capital of the agent.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Ijarah Muntahia Bittamleek assets

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 instalments are settled.

Depreciation is calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

3.9 Investments

Investments comprise of equity-type, debt-type (including monetary and non-monetary), and other investment instruments classified as fair value through equity, fair value through income statement, or at amortised cost.

All investments are initially recognised at the fair value plus transaction costs, except for investments at fair value through statement of income. Transaction costs relating to investment at fair value through income statement are charged to the income statement when incurred.

Fair value through equity

Investments which are held with the objective of both collecting the expected cashflow and selling the investment and represent a non-monetary debt-type instrument are measured at investment at fair value through equity.

Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owner's equity and equity of investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in the owner's equity or equity of investment account holders is recognised in the statement of income. Where a reliable measure of fair value for equity instruments is not available, these are measured at cost. Investments carried at fair value through equity are tested for impairment at each reporting period in accordance with impairment policy under 3.10.

Fair value through income

Investments are measured at investment at fair value through income if it is not measured at fair value through equity or at amortised cost.

Subsequent to acquisition, investments designated at fair value through statement of income are re-measured at fair value with the resultant re-measurement gains or losses recognised in the statement of income taking into consideration the split between the portion related to owners' equity and the portion related to the equity of profit and loss taking stakeholders, including investment accountholders. All other income and expenses arising from these investments are also recognised in the statement of income.

Amortised cost

Investments which are held with the objective of both collecting the expected cashflow till maturity of the instrument and represent a debt-type instrument are measured at amortised cost.

Subsequent to acquisition, investment carried at amortised cost are re-measured at the end of each reporting period. All gains or losses arising from the amortisation process and those arising from de-recognition or impairment of the investment, are recognised in the statement of income. Investments carried at amortised cost are tested for impairment at each reporting period in accordance with impairment policy under 3.10.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Investments (continued)

Amortised cost (continued)

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- For unquoted investments, fair value is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic window using current profit rates. For investments with similar terms and risk characteristics.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

3.10 Impairment

Maisarah has adopted FAS 30 Impairment and credit losses and onerous commitments for the purpose of recognizing impairment allowance. Since all financing, investments and receivables from customers are subject to credit risk, therefore, Maisarah has applied the credit loss approach for determining and measuring the estimated credit loss under different stages of credit risk.

The Islamic window recognises impairment provision for Expected Credit Loss (ECL) on the following financial instruments:

- balances with Central Bank of Oman
- due from banks
- financial assets that are debt-type instruments;
- financing receivables;
- financial guarantee contracts issued
- financing commitments issued; and
- other assets (acceptances and accrued profit).

No ECL is recognised on equity investments.

The Islamic window measures impairment provision at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment (continued)

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

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

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

Impairment provision is measured using a three-stage approach based on the extent of credit deterioration since origination:

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

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

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

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

Details of these statistical parameters / inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment (continued)

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Maisarah expects to receive); and
- 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.

However, for unfunded exposures, ECL is measured as follows:

- undrawn financing commitments: at the present value of the difference between the contractual cash flows that are due to the Maisarah if the commitment is drawn down and the cash flows that the Islamic window expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Maisarah expects to recover.

Credit impaired financial assets

At each reporting date, Maisarah assesses whether financial assets carried at amortised cost and debt securities carried at fair value through equity are credit-impaired.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment (continued)

Credit impaired financial assets (continued)

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

Forward-looking information

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

Macroeconomic factors

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

Assessment of significant increase in credit risk

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

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

Presentation of allowance for ECL in the statement of financial position

Allowance 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 financial assets;
- Debt instruments measured at fair value through equity: no provision is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the provision determined is disclosed and recognised in the fair value reserve; and
- Off-balance sheet credit risks include undrawn financing commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment (continued)

Definition of default

Maisarah considers a financial asset to be in default when:

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

Credit facilities like overdrafts, line of credit etc. where no definite repayments are pre-determined are treated as past due if the outstanding balance remains continuously in excess of 10% of the sanctioned / authorized limit or in cases where the outstanding balance in the principal operating account is less than the sanctioned / authorized limit, but there are not enough credits in the account to cover the profit charged or unauthorized drawings have frequently been allowed.

In assessing whether a counterparty is in default, the Islamic window considers indicators that are:

- Qualitative – e.g. breaches of covenant;
- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Islamic window; and
- Based on data developed internally and obtained from external sources.

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

The Islamic window follows the definition of default as stipulated in CBO guidelines (BM 977 and subsequent).

For accounting of restructuring and modification losses, refer note 35.3.3.

3.11 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, other than freehold land and capital work-in-progress, on straight line basis over their estimated useful lives from the date the asset is brought into use. The estimated useful lives are as follows:

	Year
Furniture, fixtures and equipment	3 - 7
Motor vehicles	3 - 5
Computer hardware	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 statement of profit or loss 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 recognized in statement of profit or loss as an expense when incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Intangibles

Intangible assets, including computer software and core banking system, are amortised over their estimated useful life of 5-10 years and carried net of accumulated amortisation and impairment losses.

3.13 Equity of investment accountholders

Equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Equity of investment accountholders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by Maisarah in arriving at the equity of investment accountholders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from equity of investment accountholders is deducted as Mudarib's share after deducting profit equalisation reserve and the remaining amount is distributed to the equity of investment accountholders after deducting investment risk reserve.

3.14 Profit equalisation reserve

Maisarah appropriates certain amount in excess of the profit to be distributed to equity of 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 equity of investment accountholders.

3.15 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib's share, to cater against future losses for equity of investment accountholders.

3.16 Provisions

A provision is recognised in the statement of financial position when Maisarah has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

3.17 Earnings prohibited by Shari'a

All the funds mobilised and income earned by Maisarah is from Islamic sources. Maisarah is committed to avoid recognizing any income generated from non-Shari'a compliant sources. Accordingly, all non-Islamic income is credited to a charity account where Maisarah uses these funds for social welfare activities. It includes but not limited to cases/transactions classified by Shari'a as non-compliant income and approved by the SSB to be forfeited, interest paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

3.18 Zakah

The responsibility of payment of Zakah is on individual shareholders and investment accountholders.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Joint and self-financed

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

3.20 Funds for Maisarah

Maisarah functions with funds specifically available for Islamic Banking activities and there is no commingling of funds with conventional banking financial business.

3.21 Revenue recognition

3.21.1 Murabaha and Musawama receivables

Profit from Murabaha and Musawama receivables are recognised on time apportioned basis from the date of contract. Income related to non-performing accounts is excluded from statement of profit or loss.

3.21.2 Diminishing Musharaka (DM) Financing

Income from Diminishing Musharaka is recognised on time-apportioned basis over the lease term from the Bank's right to receive payment is established. The right to receive payment is established when a customer enters into an Ijarah agreement for acquiring Bank's ownership in the fixed asset. Income related to non-performing accounts is excluded from statement of profit or loss.

3.21.3 Mudaraba financing

Income on Murdaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas the losses are charged to statement of profit or loss on declaration by the Mudarib. Income related to non-performing accounts is excluded from statement of profit or loss.

3.21.4 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation of underlying asset. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from statement of profit or loss.

3.21.5 Wakala financing

Revenues, expenses, gains and losses, arising from investment in Wakala venture as well as the respective, agent's remuneration (including both, fixed fee and variable remuneration) shall be recognised periodically, on a net basis.

3.21.6 Dividends

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

3.21.7 Fee and Commission income

Fee and commission income is recognised when earned.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Revenue recognition (continued)

3.21.8 Maisarah's share as a Mudarib

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

3.21.9 Income allocation

Income from jointly financed activities is allocated proportionately between equity of investment accountholders in accordance to their pre-agreed assigned weightages and shareholders on the basis of the average balances outstanding during the year.

3.21.10 Profit suspension

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

3.22 Taxation

Maisarah is an Islamic banking window of BankDhofar SAOG, hence it is not taxable on a stand-alone basis as per the prevailing tax laws of Oman. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

BankDhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accordingly income tax is accounted for as per IFRS in the financial statements of BankDhofar SAOG. Currently, BankDhofar SAOG does not allocate income tax charge to Maisarah. The notional tax expense on Maisarah's result for the year at the statutory effective tax rate would amount to RO 1,338 thousand (2020: RO 977 thousand). Had the taxation been allocated, following would have been the impact:

	2021 RO'000	2020 RO'000
Profit after tax	**7,583**	5,535
Retained earnings	**14,647**	7,064
Capital adequacy ratio	**14.21%**	13.97%

3.23 Employees' benefits

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Maisarah, which meets quarterly and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

S. NO.	Name	Title
1	Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman
2	Sheikh Dr. Abdullah bin Mubarak Al Abri	Deputy Chairman
3	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member
4	Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member
5	Sheikh Dr. Mohammad Ameen Ali Qattan	Member

3.25 Trade date accounting

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

3.26 Segment reporting

A segment is a distinguishable component of Maisarah that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Maisarah currently operates only in the Sultanate of Oman. Maisarah's primary format for reporting segmental information is business segments, based upon management and internal reporting structure which are regularly reviewed by the Bank's Chief Operating Decision Maker (CODM). Maisarah's main business segments are retail banking, corporate banking, and treasury & investments.

3.27 Fiduciary assets

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

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

1. Classification of investment under Wakala as Wakala Venture

Investments made under Wakala can be classified under pass-through approach or Wakala venture approach. Maisarah has opted to apply Wakala venture approach based on the condition that the investment is made in a single asset (or pool of assets) where such assets are subject to frequent changes throughout the term of the contract.

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

2. Significant increase in credit risk

ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

3. Establishing Groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

4. Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

5. Key sources of estimation uncertainty

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

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward-looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default (PD): constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default (LGD): is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Islamic window uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Islamic window uses valuation models to determine the fair value of its financial instruments.

6. Useful life of property and equipment and Ijarah Muntahia Bittamleek

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.

7. Taxation

Judgement applied by Maisarah in respect of taxation is covered under 3.22.

5. Cash and balances with Central Bank of Oman

	2021 RO'000	2020 RO'000
Cash in hand	**2,512**	3,014
Balances with Central Bank of Oman	**21,217**	11,809
	23,729	14,823

6. Due from banks and financial institutions

	2021 RO'000	2020 RO'000
Wakala placement – jointly financed	**11,550**	7,700
Current clearing account – self financed	**2,281**	1,140
	13,831	8,840
Less: Impairment allowance for ECL (note 30)	**(1)**	(1)
	13,830	8,839

At 31 December 2021, placement with one overseas bank individually represented 20% or more of the Islamic window's placements (2020: One bank represented 20% or more)..

7. Murabaha and other receivables

	2021 RO'000	2020 RO'000
Gross Murabaha receivables – jointly financed	**32,122**	27,090
Gross Ujrah receivables – jointly financed	**19**	23
	32,141	27,113
Less: Deferred income – jointly financed	**(3,535)**	(3,661)
	28,606	23,452
Credit card receivables – self financed	**612**	572
Less: Profit suspended	**(5)**	(4)
Less: Impairment allowance for ECL (note 30)	**(283)**	(182)
	28,930	23,838

7. Murabaha and other receivables (continued)

Murabaha and other receivables past due but not impaired amounts to RO 3,616 thousand (2020: RO 426 thousand).

	2021 RO'000	2020 RO'000
Deferred income at 1 January	**3,661**	3,602
Sales revenue during the year	**29,464**	27,894
Cost of sales during the year	**(27,806)**	(26,386)
Profit recognised in income	**(1,512)**	(1,432)
Profit waived off	**(271)**	(15)
Profit amortized during the year	**(1,783)**	(1,447)
Profit suspended	**(1)**	(2)
Deferred income at 31 December	**3,535**	3,661

8. Mudaraba financing

	2021 RO'000	2020 RO'000
Mudaraba financing – jointly financed	**17,819**	13,331
Less: Impairment allowance for ECL (note 30)	**(242)**	(209)
	17,577	13,122

At reporting date, there were no Mudaraba financing cases which were past due but not impaired.

9. Diminishing Musharaka financing

	2021 RO'000	2020 RO'000
Diminishing Musharaka – jointly financed	**347,400**	347,784
Less: Impairment allowance for ECL (note 30)	**(9,605)**	(7,831)
	337,795	339,953

Diminishing Musharaka past due but not impaired amounts to RO 22,623 thousand (2020: RO 13,840 thousand).

Fair value of collaterals

Upon initial recognition of Diminishing Musharaka, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

10. Investments

	2021 RO'000	2020 RO'000
Fair value through equity:		
1. Non-monetary debt type instruments		
Local listed Sukuk – jointly financed	**9,586**	9,610
International listed Sukuk – jointly financed	**9,019**	9,019
Sovereign Sukuk – jointly financed	**61,507**	61,366
	80,112	79,995
Less: Impairment provision for ECL (note 28)	**(150)**	(129)
Total Sukuk – jointly financed	**79,962**	79,866

During the year movement in investments at fair value through equity:

	2021 RO'000	2020 RO'000
Non-monetary debt type instruments		
At 1 January	**79,995**	52,586
Additions	**-**	36,003
Disposals and redemptions	**-**	(6,363)
Gain / (loss) from change in fair value (10.1)	**167**	(2,166)
Amortisation of discount / premium - net	**(50)**	(65)
At 31 December	**80,112**	79,995

10.1 Gain / (loss) from change in fair value comprises on loss to equity on Level 1 investments of RO 191 thousand (2020: RO (185) thousand) and Level 2 investments of RO (24) thousand (2020: RO (1,981) thousand).

11. Wakala

	2021 RO'000	2020 RO'000
Wakala – jointly financed	**59,608**	52,017
Profit receivable on Wakala	**1,998**	-
Less: Profit suspended	**(2)**	-
Less: Impairment allowance for ECL (note 30)	**(165)**	(125)
	61,439	51,892

Wakala past due but not impaired amounts to RO 591 thousand (2020: RO 38 thousand).

12. Ijarah Muntahia Bittamleek

	2020 RO'000	2019 RO'000
Cost – jointly financed		
at 1 January	**55,973**	54,577
Additions	**1,874**	3,263
Disposals	**(1,246)**	(1,867)
at 31 December	**56,601**	55,973
Accumulated depreciation – jointly financed		
at 1 January	**(9,573)**	(8,556)
Charge for the period	**(3,065)**	(2,753)
Disposals	**1,249**	1,736
at 31 December	**(11,389)**	(9,573)
Net book value at 31 December	**45,212**	46,400
Less: Impairment allowance for ECL (note 30)	**(310)**	(185)
Net Ijarah Muntahia Bittamleek	**44,902**	46,215

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 2,753 thousand (2020: RO 1,764 thousand).

13. Property and equipment

	2021				
	Furniture, fixtures & equipment RO'000	Motor vehicles RO'000	Computer hardware RO'000	Capital work in progress RO'000	Total RO'000
Cost					
at 1 January	**1,450**	**87**	**352**	**18**	**1,907**
Additions	**24**	**-**	**38**	**75**	**137**
Disposals / Transfers	**-**	**(6)**	**-**	**(42)**	**(48)**
at 31 December	**1,474**	**81**	**390**	**51**	**1,996**
Accumulated depreciation					
at 1 January	**(1,045)**	**(77)**	**(309)**	**-**	**(1,431)**
Charge for the year	**(145)**	**(5)**	**(27)**	**-**	**(177)**
Disposal	**-**	**6**	**-**	**-**	**6**
at 31 December	**(1,190)**	**(76)**	**(336)**	**-**	**(1,602)**
Net book amount at 31 December	**284**	**5**	**54**	**51**	**394**

	2020				
	Furniture, fixtures & equipment RO'000	Motor vehicles RO'000	Computer hardware RO'000	Capital work in progress RO'000	Total RO'000
Cost					
at 1 January	1,280	78	352	71	1,781
Additions	170	9	-	76	255
Disposals / Transfers	-	-	-	(129)	(129)
at 31 December	1,450	87	352	18	1,907
Accumulated depreciation					
at 1 January	(873)	(70)	(266)	-	(1,209)
Charge for the year	(172)	(7)	(43)	-	(222)
Disposal	-	-	-	-	-
at 31 December	(1,045)	(77)	(309)	-	(1,431)
Net book amount at 31 December	405	10	43	18	476

14. Intangibles

	2021 RO'000	2020 RO'000
Cost		
at 1 January	**1,817**	1,651
Additions	**398**	166
at 31 December	**2,215**	1,817
Accumulated amortisation		
at 1 January	**(1,310)**	(1,076)
Charge for the year	**(234)**	(234)
at 31 December	**(1,544)**	(1,310)
Net book amount at 31 December	**671**	507

15. Other assets

	2021 RO'000	2020 RO'000
Ijarah rental receivables	**98**	143
Other profit receivables	**21,152**	13,654
Prepayments	**329**	114
Murabaha and Musawama inventory – Jointly financed (15.1)	**14**	68
Advances – Jointly financed	**611**	2,274
Others	**184**	101
Acceptances	**46,381**	23,275
	68,769	39,629
Less: Reserve for suspended profit (note 30)	**(836)**	(627)
Less: Impairment allowance for ECL on accrued profit (note 30)	**(22)**	(11)
Total	**67,911**	38,991

15.1 During 2020 and 2021, all Murabaha and Musawama inventories are held under the binding promise to purchase.

16. Current accounts

	2021 RO'000	2020 RO'000
Qard hasan current accounts	**15,951**	20,406
Wakala call accounts (16.1)	**-**	74,515
Margin accounts	**6,838**	4,093
Total	**22,789**	99,014

16.1 Upon the initial adoption of FAS 31, Wakala call accounts are classified under quasi equity.

17. Due to banks

	2021 RO'000	2020 RO'000
Due to Head Office (BankDhofar SAOG) (17.1)	-	70,000
Due to banks (17.1)	-	30,800
Total	-	100,800

17.1 Due to Head Office and banks comprises of Wakala deposits.

Upon the initial adoption of FAS 31, Wakala inter bank deposits are classified under quasi equity.

At 31 December 2020, inter bank borrowings with BankDhofar SAOG individually represented 20% or more of the Islamic window's due to banks.

18. Qard Hasan from Head Office

	2021 RO'000	2020 RO'000
Qard Hasan from Head Office (18.1)	**35,000**	35,000
Current clearing account (18.2)	**2,759**	2,005
Total	**37,759**	37,005

18.1 This amount represents profit-free Qard Hasan facility obtained on real need basis from Head Office for a specific period as part of Maisarah's liquidity management.

18.2 This amount represents the vostro account of Maisarah opened with Head Office

19. Other liabilities

	2021 RO'000	2020 RO'000
Payables	**670**	434
Accrued expenses	**2,305**	1,583
Profit payables	**3,706**	2,421
Others	**277**	160
Charity payable	**5**	7
Acceptances	**46,381**	23,275
Impairment allowance for ECL on non-funded exposure (note 30)	**848**	527
Total	**54,192**	28,407

20. Wakala inter bank deposits

	2021 RO'000	2020 RO'000
Wakala inter bank deposits (note 2.5.2)	**60,025**	-
Total	**60,025**	-

At 31 December 2021, inter bank borrowings with BankDhofar SAOG individually represented 20% or more of the Islamic window's due to banks.

21. Wakala customer deposits

	2021 RO'000	2020 RO'000
Wakala customer call account (note 2.5.2)	**137,485**	-
Wakala customer term deposits (note 2.5.2)	**212,300**	-
Total	**349,785**	-

22. Equity of investment accountholders

	2021 RO'000	2020 RO'000
Saving account	**64,443**	53,456
Profit equalisation reserve	**30**	22
Investment risk reserve	**8**	5
Total	**64,481**	53,483

There is no restricted investment at reporting date.

Basis of distribution of the profit between owners' equity and equity of investment accountholders

The investment profits are distributed between owners' equity and equity of investment accountholders for the period ended 31 December 2021 and 2020 as follows:

	2021 %	2020 %
Equity of investment accountholders share	**50%**	50%
Mudarib's share	**50%**	50%

The profit equalisation reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib's share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. Equity of investment accountholders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged to Maisarah.

22. Equity of investment accountholders (continued)

The investment risk reserve is deducted from investment accountholders share after allocating the Mudarib's share of income as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

22.1 Movement in profit equalisation reserve

	2021 RO'000	2020 RO'000
Balance as at 1 January	**22**	16
Apportioned during the year	**8**	6
Balance as at 31 December	**30**	22

22.2 Movement in investment risk reserve

	2021 RO'000	2020 RO'000
Balance as at 1 January	**5**	4
Apportioned during the year	**3**	1
Balance as at 31 December	**8**	5

23. Allocated share capital

During 2021, there was no increase in the assigned capital of Maisarah. Whereas, during 2020 there was an increase in the assigned capital to Maisarah from the core paid up capital of the shareholders amounting to RO 15 million taking the total assigned capital to RO 70 million. .

24. Fiduciary assets

At reporting date, there were no funds under management with Maisarah.

25. Income from Islamic finances and receivables

	2021 RO'000	2020 RO'000
Murabaha receivables	**1,505**	1,376
Mudaraba	**943**	970
Ijarah muntahia bittamleek – net (25.1)	**2,495**	2,449
Diminishing Musharaka	**20,560**	19,307
Revenue from Wakala	**3,436**	2,825
Musawama	**6**	55
Ujrah fees	**1**	1
	28,946	26,983

25.1 Depreciation on Ijarah Muntahia Bittamleek amounts to RO 3,065 thousand (2020: RO 2,753 thousand).

26. Income or gains / losses from investments

	2021 RO'000	2020 RO'000
Income on investments at fair value through equity	**4,569**	3,010
Income on investments at amortised cost	**-**	294
	4,569	3,304

27. Return on customer Wakala deposits

	2021 RO'000	2020 RO'000
Return allocated to Wakala depositors	**12,175**	11,931
Hiba for Wakala depositors	**1**	-
	12,176	11,931

28. Staff costs

	2021 RO'000	2020 RO'000
Salaries and allowances	**4,695**	4,410
Other personnel cost	**1,360**	705
Non-Omani employee terminal benefits	**52**	47
	6,107	5,162

29. General and administrative expenses

	2021 RO'000	2020 RO'000
Occupancy cost	**686**	617
Operating and administration cost	**1,585**	1,275
	2,271	1,892

30. Allowance for expected credit losses

30.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2021 and 2020:

31 December 2021	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Gross exposure				
Balances with Central Bank of Oman	21,217	-	-	21,217
Due from banks and financial institutions	13,831	-	-	13,831
Murabaha and other receivables	20,750	8,357	111	29,218
Mudaraba financing	8,569	9,250	-	17,819
Diminishing Musharaka financing	260,057	82,997	4,346	347,400
Investments	80,112	-	-	80,112
Wakala financing	23,327	38,193	86	61,606
Ijarah Muntahia Bittamleek	44,754	334	124	45,212
Accrued profit	13,042	7,318	890	21,250
Acceptances	46,327	54	-	46,381
Total funded gross exposure	531,986	146,503	5,557	684,046
Letter of credit / guarantee	10,919	9,275	-	20,194
Financing commitment/unutilised limits	21,273	27,061	-	48,334
Total non-funded gross exposure	32,192	36,336		68,528
Total gross exposure	564,178	182,839	5,557	752,574
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(1)	-	-	(1)
Murabaha and other receivables	(87)	(142)	(59)	(288)
Mudaraba financing	(72)	(170)	-	(242)
Diminishing Musharaka financing	(4,261)	(3,900)	(1,444)	(9,605)
Investments	(150)	-	-	(150)
Wakala	(47)	(94)	(26)	(167)

30. Allowance for expected credit losses (continued)

30.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2021 and 2020: (continued)

31 December 2021	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Ijarah Muntahia Bittamleek	(144)	(86)	(80)	(310)
Accrued profit	(9)	(13)	(836)	(858)
Acceptances	(390)	-	-	(390)
Total funded	(5,161)	(4,405)	(2,445)	(12,011)
Letter of credit / guarantee	(45)	(77)	-	(122)
Financing commitment / unutilised limits	(86)	(250)	-	(336)
Total non-funded	(131)	(327)	-	(458)
Total allowance and profit suspended	(5,292)	(4,732)	(2,445)	(12,469)
Net exposure				
Balances with Central Bank of Oman	21,217	-	-	21,217
Due from banks and financial institutions	13,830	-	-	13,830
Murabaha and other receivables	20,663	8,215	52	28,930
Mudaraba financing	8,497	9,080	-	17,577
Diminishing Musharaka financing	255,796	79,097	2,902	337,795
Investments	79,962	-	-	79,962
Wakala financing	23,280	38,099	60	61,439
Ijarah Muntahia Bittamleek	44,610	248	44	44,902
Accrued profit	13,033	7,305	54	20,392
Acceptances	45,937	54	-	45,991
Total funded net exposure	526,825	142,098	3,112	672,035
Letter of credit / guarantee	10,874	9,198	-	20,072
Financing Commitment / Unutilised limits	21,187	26,811	-	47,998
Total non-funded net exposure	32,061	36,009	-	68,070
Total net exposure	558,886	178,107	3,112	740,105

30. Allowance for expected credit losses (continued)

30.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2021 and 2020: (continued)

31 December 2020	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Gross exposure				
Balances with Central Bank of Oman	11,809	-	-	11,809
Due from banks and financial institutions	8,840	-	-	8,840
Murabaha and other receivables	22,793	1,183	48	24,024
Mudaraba financing	2,943	10,388	-	13,331
Diminishing Musharaka financing	291,317	52,146	4,321	347,784
Investments	79,995	-	-	79,995
Wakala financing	30,916	21,031	70	52,017
Ijarah Muntahia Bittamleek	46,248	72	80	46,400
Accrued profit	10,120	3,021	656	13,797
Acceptances	23,086	189	-	23,275
Total funded gross exposure	528,067	88,030	5,175	621,272
Letter of credit / guarantee	20,964	8,391	-	29,355
Financing commitment/unutilised limits	38,328	16,603	-	54,931
Total non-funded gross exposure	59,292	24,994	-	84,286
Total gross exposure	587,359	113,024	5,175	705,558
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(1)	-	-	(1)
Murabaha and other receivables	(130)	(29)	(27)	(186)
Mudaraba financing	(28)	(181)	-	(209)
Diminishing Musharaka financing	(2,140)	(4,279)	(1,412)	(7,831)
Investments	(129)	-	-	(129)
Wakala financing	(63)	(44)	(18)	(125)

30. Allowance for expected credit losses (continued)

30.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2021 and 2020: (continued)

31 December 2020	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Ijarah Muntahia Bittamleek	(111)	(21)	(53)	(185)
Accrued profit	(5)	(6)	(627)	(638)
Acceptances	(168)	-	-	(168)
Total funded	(2,775)	(4,560)	(2,137)	(9,472)
Letter of credit / guarantee	(52)	(58)	-	(110)
Financing commitment / unutilised limits	(102)	(147)	-	(249)
Total non-funded	(154)	(205)	-	(359)
Total allowance and profit suspended	(2,929)	(4,765)	(2,137)	(9,831)
Net exposure				
Balances with Central Bank of Oman	11,809	-	-	11,809
Due from banks and financial institutions	8,839	-	-	8,839
Murabaha and other receivables	22,663	1,154	21	23,838
Mudaraba financing	2,915	10,207	-	13,122
Diminishing Musharaka financing	289,177	47,867	2,909	339,953
Investments	79,866	-	-	79,866
Wakala financing	30,853	20,987	52	51,892
Ijarah Muntahia Bittamleek	46,137	51	27	46,215
Accrued profit	10,115	3,015	29	13,159
Acceptances	22,918	189	-	23,107
Total funded net exposure	525,292	83,470	3,038	611,800
Letter of credit / guarantee	20,912	8,333	-	29,245
Financing Commitment / Unutilised limits	38,226	16,456	-	54,682
Total non-funded net exposure	59,138	24,789	-	83,927
Total net exposure	584,430	108,259	3,038	695,727

30. Allowance for expected credit losses (continued)

30.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2021 and 2020: (continued)

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

30.2.1 Comparison of provisions held as per Credit Loss approach and required as per CBO norms

Disclosure requirements containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per Credit Loss approach, and reserve profit required as per CBO are given below:

30. Allowance for expected credit losses (continued)

30.2.1 Comparison of provisions held as per Credit Loss approach and required as per CBO norms (continued)

At 31 December 2021 RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per CL	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per CL	Profit recognized	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8) = 3-5	(9)	(10)
	Stage 1	357,457	3,716	4,611	(895)	353,741	352,846	-	-
Standard	Stage 2	101,618	1,010	2,079	(1,069)	100,608	99,539	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		459,075	4,726	6,690	(1,964)	454,349	452,385	-	-
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	37,513	379	2,313	(1,934)	37,134	35,200	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		37,513	379	2,313	(1,934)	37,134	35,200	-	-
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	163	41	65	(24)	122	98	-	-
Subtotal		163	41	65	(24)	122	98	-	-
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	869	220	270	(50)	649	599	-	-
Subtotal		869	220	270	(50)	649	599	-	-
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,635	1,259	1,274	(15)	2,369	2,361	-	7
Subtotal		3,635	1,259	1,274	(15)	2,369	2,361	-	7
	Stage 1	206,721	-	681	(681)	206,721	206,040	-	-
Other items	Stage 2	43,708	-	340	(340)	43,708	43,368	-	-
	Stage 3	890	-	836	(836)	54	54	-	836
Subtotal		251,319	-	1,857	(1,857)	250,483	249,462	-	836
	Stage 1	564,178	3,716	5,292	(1,576)	560,462	558,886	-	-
Total	Stage 2	182,839	1,389	4,732	(3,343)	181,450	178,107	-	-
	Stage 3	5,557	1,520	2,445	(925)	3,194	3,112	-	843
	Total	752,574	6,625	12,469	(5,844)	745,106	740,105	-	843

30. Allowance for expected credit losses (continued)

30.2.1 Comparison of provisions held as per Credit Loss approach and required as per CBO norms (continued)

At 31 December 2020 RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per CL	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per CL	Profit recognized	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8) = 3-5	(9)	(10)
Standard	Stage 1	394,217	4,091	2,472	1,619	390,126	391,745	-	-
	Stage 2	48,521	478	1,224	(746)	48,043	47,297	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		442,738	4,569	3,696	873	438,169	439,042	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	36,299	366	3,330	(2,964)	35,933	32,969	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		36,299	366	3,330	(2,964)	35,933	32,969	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	166	41	62	(21)	125	104	-	-
Subtotal		166	41	62	(21)	125	104	-	-
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	739	185	211	(26)	554	528	-	-
Subtotal		739	185	211	(26)	554	528	-	-
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,614	1,249	1,237	12	2,361	2,377	-	4
Subtotal		3,614	1,249	1,237	12	2,361	2,377	-	4
Other items	Stage 1	193,142	-	457	(457)	193,142	192,685	-	-
	Stage 2	28,204	-	211	(211)	28,204	27,993	-	-
	Stage 3	656	-	627	(627)	29	29	-	627
Subtotal		222,002	-	1,295	(1,295)	221,375	220,707	-	627
Total	Stage 1	587,359	4,091	2,929	1,162	583,268	584,430	-	-
	Stage 2	113,024	844	4,765	(3,921)	112,180	108,259	-	-
	Stage 3	5,175	1,475	2,137	(662)	3,069	3,038	-	631
	Total	705,558	6,410	9,831	(3,421)	698,517	695,727	-	631

30. Allowance for expected credit losses (continued)

30.2.1 Comparison of provisions held as per Credit Loss approach and required as per CBO norms (continued)

Other items disclosed above includes exposure which are not subjected to provision under BM 977 and related instructions. This represents outstanding and respective provisions held against letter of credit and guarantee, financing commitments / unutilised limits, investments at fair value through equity and other assets.

30.2.2 Restructured financing

At 31 December 2021 RO'000

Asset Classification as per CBO Norms	Asset Classification	Gross Amount	Provision required as per CBO Norms	Provision held as per CL	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per CL	Profit recognized	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8) = 3-5	(9)	(10)
Classified as performing	Stage 1	530	3	15	(12)	527	515	-	-
	Stage 2	15,636	149	1,055	(906)	15,487	14,581	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**16,166**	**152**	**1,070**	**(918)**	**16,014**	**15,092**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	784	196	247	(51)	433	537	-	155
Subtotal		**784**	**196**	**247**	**(51)**	**433**	**537**	**-**	**155**
Total	**Stage 1**	**530**	**3**	**15**	**(12)**	**527**	**515**	**-**	**-**
	Stage 2	**15,636**	**149**	**1,055**	**(906)**	**15,487**	**14,581**	**-**	**-**
	Stage 3	**784**	**196**	**247**	**(51)**	**433**	**537**	**-**	**155**
	Total	**16,950**	**348**	**1,317**	**(969)**	**16,447**	**15,633**	**-**	**155**

30. Allowance for expected credit losses (continued)

30.2.2 Restructured financings (continued)

At 31 December 2020 RO'000

Asset Classification as per CBO Norms	Asset Classification	Gross Amount	Provision required as per CBO Norms	Provision held as per CL	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per CL	Profit recognized	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8) = 3-5	(9)	(10)
Classified as performing	Stage 1	564	4	14	(10)	560	550	-	-
	Stage 2	15,111	144	1,813	(1,669)	14,967	13,298	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		15,675	148	1,827	(1,679)	15,527	13,848	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	785	196	234	(38)	484	551	-	105
Subtotal		785	196	234	(38)	484	551	-	105
Total	Stage 1	564	4	14	(10)	560	550	-	-
	Stage 2	15,111	144	1,813	(1,669)	14,967	13,298	-	-
	Stage 3	785	196	234	(38)	484	551	-	105
	Total	16,460	344	2,061	(1,717)	16,011	14,399	-	105

* Net of provisions and reserve profit as per CBO norms.

Asset Classification	31 December 2021		
	As per CBO Norms RO'000	As per CL RO'000	Difference RO'000
Impairment loss charged to statement of profit or loss	215	2,426	(2,211)
Provision required as per CBO norms including reserve profit/held	7,468	13,312	(5,844)
Gross non-performing financing (percentage)	0.93%	0.93%	0.00%
Net non-performing financing (percentage)	0.63%	0.62%	0.01%

30. Allowance for expected credit losses (continued)

30.2.2 Restructured financings (continued)

Asset Classification	31 December 2020		
	As per CBO Norms RO'000	As per CL RO'000	Difference RO'000
Impairment loss charged to statement of profit or loss	711	3,325	(2,614)
Provision required as per CBO norms including reserve profit/held	7,041	10,462	(3,421)
Gross non-performing financing (percentage)	0.93%	0.93%	0.00%
Net non-performing financing (percentage)	0.64%	0.63%	0.01%

30.3 Following tables show the movement in impairment allowance for the year:

31 December 2021	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Impairment allowance at beginning	**2,929**	**4,765**	**2,137**	**9,831**
Charge for the year - Stage 1	**2,363**	**-**	**-**	**2,363**
Charge for the year - Stage 2	**-**	**(33)**	**-**	**(33)**
Charge for the year - Stage 3	**-**	**-**	**124**	**124**
Reversal of charge - Stage 3	**-**	**-**	**(28)**	**(28)**
Net charge for the year	**2,363**	**(33)**	**96**	**2,426**
Impairment allowance at end before profit suspended	**5,292**	**4,732**	**2,233**	**12,257**
Add: Increase in profit suspended	**-**	**-**	**212**	**212**
Impairment allowance at end	**5,292**	**4,732**	**2,445**	**12,469**

31 December 2020	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Impairment allowance at beginning	1,330	3,619	1,318	6,267
Charge for the year - Stage 1	1,599	-	-	1,599
Charge for the year - Stage 2	-	1,146	-	1,146
Charge for the year - Stage 3	-	-	634	634
Reversal of charge - Stage 3	-	-	(54)	(54)
Net charge for the year	1,599	1,146	580	3,325
Impairment allowance at end before profit suspended	2,929	4,765	1,898	9,592
Add: Increase in profit suspended	-	-	239	239
Impairment allowance at end	2,929	4,765	2,137	9,831

31. Related parties transactions

In the ordinary course of business, Maisarah conducts transactions with certain of its Directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2021 RO'000	2020 RO'000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**635**	517
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**236**	24,458
Remuneration paid to Shari'a Board members & Shari'a Supervisor		
Chairman		
– remuneration proposed	**9**	9
– sitting fees paid	**3**	2
Other Members		
– remuneration proposed	**29**	29
– sitting fees paid	**9**	8
	50	48
Other transactions		
Rental payment to a related party	**294**	306
Income from finance to related parties	**19**	19
Profit expense on deposits from related parties	**2**	1,455
Key management compensation		
Salaries and other benefits	**653**	417
End of service benefits	**-**	6
	653	423

At 31 December 2021, profit rate for finances range from 2.0% to 5.0% (2020: 2.0% to 5.5%), and profit rate for deposits range from 0.0% to 4.8% (2020: 0.0% to 4.8%).

32. Contingent liabilities and commitments

1. Credit related contingent items

Letters of credit and other commitments for which there are corresponding customer liabilities:

	2021 RO'000	2020 RO'000
Letters of credit	**6,492**	10,747
Guarantees	**13,702**	18,608
Total	**20,194**	29,355

32. Contingent liabilities and commitments (continued)

2 Capital and investment commitments

	2021 RO'000	2020 RO'000
Contractual commitments for property and equipment	**886**	42

3 The unutilised limits of Maisarah's funded and non-funded exposure for the year ended 31 December 2021 amounts to RO 50,730 thousand (2020: 57,903 thousand).

33. Islamic financial derivatives

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The values of the derivative instruments held are set out as below:

	Contract / Notional Amount by term to Maturity			
Forward exchange contracts	**within 3 months RO'000**	**4-12 months RO'000**	**more than 12 months RO'000**	**Total RO'000**
31 December 2021				
Currency forward - purchase contracts	**2,695**	**30,030**	**-**	**32,725**
Currency forward - sale contracts	**2,695**	**30,130**	**-**	**32,825**

	Contract / Notional Amount by term to Maturity			
Forward exchange contracts	**within 3 months RO'000**	**4-12 months RO'000**	**more than 12 months RO'000**	**Total RO'000**
31 December 2020				
Currency forward - purchase contracts	115,500	3,850	17,325	136,675
Currency forward - sale contracts	115,500	3,860	17,487	136,847

34. Fair value information

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

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

34. Fair value information (continued)

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

Fair value information	2021			
	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Investments at fair value through equity	**61,507**	**18,605**	**-**	**80,112**

Fair value information	2020			
	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Investments at fair value through equity	61,966	18,029	-	79,995

35. Financial risk management

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

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

Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Executive Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. BRC is the management decision making body which is empowered to consider all credit related issues upto certain limits.

35. Financial risk management (continued)

Credit risk (continued)

Credit risk is managed by the Risk Management Division ("RMD") through a system of independent risk assessment in credit proposals before they are considered by the appropriate approving authorities. Maisarah has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. Maximum counterparty/group exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using Moody's, S&P and Fitch ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines.

35.1 Impact of Coronavirus (COVID) Pandemic

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

35.2 Government measures

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

35.3 Impact of COVID on the Window

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

In response to pandemic situation, CBO issued the guidelines in March 2020 to provide the necessary support to affected customers particularly Small and Medium Enterprises (SME), wherein CBO allowed deferment of financing instalments / profit for affected customers and the availability of the deferment, without adversely affecting the risk classification of such financings, till 31 December 2021. In line with the CBO guidelines, the Window considered for all eligible customers (who have requested for deferment), as short-term liquidity support to address the customer's potential cash flow issues. The deferrals have been allowed to only customers whose cashflows have been impacted by the COVID situation and backed by specific requests from them. For such cases, every review includes an assessment on whether the strain on cashflows observed are on account of the COVID impact or otherwise and in case these are identified to be otherwise, the accounts are suitable staged. The Window continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk. The outstanding of the accounts under deferment amounts to RO 163.522 million as at 31 December 2021. The Window has also considered additional ECL to address significant increase in credit risk in certain accounts based on its judgment and experience. Overall, total ECL to total exposure have increased from 1.39% as at Dec-20 to 1.66% as at Dec-21.

35. Financial risk management (continued)

Credit risk (continued)

35.3 Impact of COVID on the Window (continued)

Additionally, the CBO has also advised to suspend the calculation of profit for laid off employee of private sector for a period of 12 months. In order to support the citizens of the country in such challenging times as per Shari'a requirement and CBO guidelines, Maisarah has waived profit to 20 customers with profit waiver of RO 88 thousand.

35.3.1Impact on SICR:

The Window has given specific consideration to the relevant impact of COVID on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in staging downgrade of certain exposures and recognition of relevant ECLs and impairment allowances as disclosed in note 35 to the financial statements. Further, the monitoring of overdue and SICR have been enhanced by reviewing all exceptional reports and undertaking quarterly reviews in respect of accounts in risk grade of 5 to 8. Additional exposure is undertaken on selective basis duly supported by the cashflows that can be firmly established, and the requirements are considered with proper monitoring mechanism.

35.3.2 Impact on ECL:

The Window estimates its Expected Credit Losses (ECLs) considering the macroeconomic indicators and ECLs were estimated based on forward-looking macro-economic factors considering the severity and likelihood of economic scenarios. The macro-economic variables for estimation of forward-looking factor in ECL were identified based on their level and direction of association with asset quality ratio of Oman Banking sector. The forward-looking factors, called as Cyclicality Index,) is used to forecast expected point-in-time probability of defaults for all the portfolio for which ECL is estimated. The forward-looking macro-economic factors were revised during the year 2021 as per guidelines of the Bank and in line with the revision of GDP projections by the International Monetary Fund. The revision made in the macro-economic indicators during last year is provided as under:

	Real GDP growth (%)		Oil revenue (%GDP)	
	Dec-21	Dec-20	Dec-21	Dec-20
Present	-4.30%	0.50%	23.80%	29.40%
Year 1	1.80%	-10.00%	30.29%	21.72%
Year 2	7.40%	-0.50%	33.13%	24.94%
Year 3	2.70%	11.00%	32.94%	24.27%

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

35. Financial risk management (continued)

Credit risk (continued)

35.3 Impact of COVID on the Window (continued)

35.3.2 Impact on ECL: (continued)

The Window's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise. Other than changes in the macro-economic indicators, the Window has also considered 12-month ECL for revolving credit facilities as advised by the regulator. The total ECL of Maisarah has increased from RO 9,200 thousand as at Dec-20 to RO 11,626 thousand as at Dec-21, thereby increasing the ECL by RO 2,426 thousand. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. In order to meet any additional challenge, the Window has considered additional ECL overlays, based on the management experience and close monitoring of the stressed accounts. The management overlay (over and above the ECL impacted due to macro-economic indicators) made in estimating the reported ECL as at 31 December 2021 are set out in the following table:

Type of Portfolio	Modelled ECL RO'000	Post-model adjustments (PMAs) and Management overlays RO'000	Total ECL RO'000	Adjustments as a % of Total ECL RO'000
Corporate	6,160	3,010	9,170	32.82%
SME	1,067	93	1,160	8.02%
Retail	1,145	-	1,145	0.00%
Others	151	-	151	0.00%
Total	**8,523**	**3,103**	**11,626**	**26.69%**

The management overlay (over and above the ECL impacted due to macro-economic indicators) made in estimating the reported ECL as at 31 December 2020 are set out in the following table:

Type of Portfolio	Modelled ECL RO'000	Post-model adjustments (PMAs) and Management overlays RO'000	Total ECL RO'000	Adjustments as a % of Total ECL RO'000
Corporate	6,067	860	6,927	12.42%
SME	1,211	-	1,211	0.00%
Retail	672	-	672	0.00%
Others	390	-	390	0.00%
Total	**8,340**	**860**	**9,200**	**9.35%**

Sensitivity of ECL to future economic conditions

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

35. Financial risk management (continued)

Credit risk (continued)

35.3 Impact of COVID on the Window (continued)

35.3.2 Impact on ECL: (continued)

As at 31 December 2021	ECL for Financing / Receivables RO'000	ECL for Investment securities carried at amortised cost RO'000	ECL for Other Portfolio RO'000	Total RO'000
Scenarios currently used by the Window	**10,602**	**150**	**874**	**11,626**
100% Base case scenario	**10,154**	**155**	**888**	**11,197**
100% Downside scenario	**12,585**	**241**	**1,180**	**14,006**

As at 31 December 2020	ECL for Financing / Receivables RO'000	ECL for Investment securities carried at amortised cost RO'000	ECL for Other Portfolio RO'000	Total RO'000
Scenarios currently used by the Window	7,975	129	261	8,340
100% Base case scenario	8,490	139	100	8,729
100% Downside scenario	9,731	179	103	10,013

The above tables reveal that in case of 100% downside scenario, the ECL may increase by RO 2,380 thousand (2020: 1,673 thousand) from the current position.

35.3.3 Accounting for modification loss and restructuring:

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

Considering the specific nature of Islamic Financial Institutions (IFIs), in line with the Shari'a principles and rules, AAOIFI does not allow either recording a receivable (Dain) on net present value (NPV) or applying the concept of opportunity cost in accounting.

Analysis on the deferment benefits used of the Customers

The following tables contain an analysis of all the accounts which are availing deferment benefits:

35. Financial risk management (continued)

Credit risk (continued)

35.3 Impact of COVID on the Window (continued)

35.3.3 Accounting for modification loss and restructuring: (continued)

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

As at 31 December 2021	Outstanding RO'000	Deferred Principal RO'000	Deferred Profit RO'000	ECL RO'000
Retail customers (reduced wages)	1,278	10	19	17
Retail customers (laid off jobs)	505	14	16	12
Total	**1,783**	**24**	**35**	**89**

As at 31 December 2020	Outstanding RO'000	Deferred Principal RO'000	Deferred Profit RO'000	ECL RO'000
Retail customers (reduced wages)	77,670	1,574	1,724	196
Retail customers – (laid off jobs)	3,242	68	87	70
Total	**80,912**	**1,642**	**1,811**	**266**

B: Sector-wise analysis of Corporate customers benefiting from deferred payments

As at 31 December 2021		Construction RO'000	Services RO'000	Manufacturing RO'000	Import Trade RO'000	All Others RO'000	Total RO'000
Stage 1	Outstanding	66,380	27,351	2,923	1,873	10,956	**109,483**
	Deferred Principal	801	-	5,751	1,320	3,326	**11,198**
	Deferred Profit	2,234	1,023	73	169	312	**3,811**
	ECL	2,096	269	6	4	69	**2,444**
Stage 2	Outstanding	18,164	26,295	5,071	409	2,243	**52,182**
	Deferred Principal	4,387	1,411	120	-	91	**6,009**
	Deferred Profit	817	932	253	38	23	**2,063**
	ECL	868	999	169	17	101	**2,154**
Stage 3	Outstanding	-	-	-	-	74	**74**
	Deferred Principal	-	-	-	-	-	**-**
	Deferred Profit	-	-	-	-	3	**3**
	ECL	-	-	-	-	19	**19**
Total	**Outstanding**	**84,544**	**53,646**	**7,994**	**2,282**	**13,273**	**161,739**
	Deferred Principal	**5,188**	**1,411**	**5,871**	**1,320**	**3,417**	**17,207**
	Deferred Profit	**3,051**	**1,955**	**326**	**207**	**338**	**5,877**
	ECL	**2,964**	**1,268**	**175**	**21**	**189**	**4,617**

35. Financial risk management (continued)

Credit risk (continued)

35.3 Impact of COVID on the Window (continued)

35.3.3 Accounting for modification loss and restructuring: (continued)

B: Sector-wise analysis of Corporate customers benefiting from deferred payments (continued)

As at 31 December 2020		Construction RO'000	Services RO'000	Manufacturing RO'000	Import Trade RO'000	All Others RO'000	Total RO'000
Stage 1	Outstanding	84,612	45,650	6,755	1,756	7,652	146,425
	Deferred Principal	4,307	2,947	6,121	676	882	14,933
	Deferred Profit	3,093	1,778	350	58	366	5,645
	ECL	1,293	331	19	6	43	1,692
Stage 2	Outstanding	43,596	607	4,207	922	954	50,286
	Deferred Principal	4,642	76	1,543	172	188	6,621
	Deferred Profit	2,089	16	265	36	31	2,437
	ECL	3,539	34	229	61	13	3,876
Stage 3	Outstanding	-	-	-	-	74	74
	Deferred Principal	-	-	-	-	8	8
	Deferred Profit	-	-	-	-	6	6
	ECL	-	-	-	-	23	23
Total	Outstanding	128,208	46,257	10,962	2,678	8,680	196,785
	Deferred Principal	8,949	3,023	7,665	848	1,078	21,562
	Deferred Profit	5,182	1,794	615	94	403	8,088
	ECL	4,832	365	248	67	79	5,591

35.3.4 Impact on the Capital Adequacy:

The Window has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. As per the Prudential filter, the Tier II capital of the Window will comprise of Stage 1 ECL plus portion of Stage 2 ECL. Such portion shall be estimated as under:

- The Stage 2 ECL amount as on Dec-19 is considered "Base Year Amount" and will continue to get earlier phase out arrangement (i.e. 40% for 2020 and 20% for 2021); and
- The incremental ECL (i.e. Stage 2 ECL at a respective reporting date minus Stage 2 ECL as at Dec-19) may be considered for Tier 2 capital subject to incremental reduction of 20% ECL every year (like 40% in 2021, 60% in 2022 etc.).

The Tier II Capital has improved by 0.105% due to application of the above prudential filter.

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

35. Financial risk management (continued)

Credit risk (continued)

Gross exposures subjected to credit risk exposure are as follows:

1. Portfolio concentrations (Gross)

	2021 RO'000	2020 RO'000
Balances with CBO	**21,217**	11,809
Due from Banks	**13,831**	8,840
Total financing	**501,255**	483,556
Investments	**80,112**	79,995
Letter of credit / Guarantee	**20,194**	29,355
Acceptances	**46,381**	23,275
Unutilized exposure	**48,334**	54,931
Accrued profit	**21,250**	13,797
Total	**752,574**	705,558

35. Financial risk management (continued)

Credit risk (continued)

2. Geographical concentrations (Gross)

	2021				
	Sultanate of Oman RO'000	Other GCC Countries RO'000	Europe and North America RO'000	Africa and Asia RO'000	Total RO'000
Balances with CBO	21,217	-	-	-	**21,217**
Due from Banks	-	11,995	1,836	-	**13,831**
Total financing	501,255	-	-	-	**501,255**
Investments	80,112	-	-	-	**80,112**
Letter of credit / Guarantee	14,658	261	2,231	3,044	**20,194**
Acceptances	111	32,737	13,526	7	**46,381**
Unutilized exposure	48,334	-	-	-	**48,334**
Accrued profit	21,250	-	-	-	**21,250**
Total	**686,937**	**44,993**	**17,593**	**3,051**	**752,574**

	2020				
	Sultanate of Oman RO'000	Other GCC Countries RO'000	Europe and North America RO'000	Africa and Asia RO'000	Total RO'000
Balances with CBO	11,809	-		-	11,809
Due from Banks	-	8,017	823	-	8,840
Total financing	483,556	-	-	-	483,556
Investments	79,995	-	-	-	79,995
Letter of credit / Guarantee	19,489	7,949	282	1,635	29,355
Acceptances	183	102	17,350	5,640	23,275
Unutilized exposure	54,931	-	-	-	54,931
Accrued profit	13,797	-	-	-	13,797
Total	663,760	16,068	18,455	7,275	705,558

35. Financial risk management (continued)

Credit risk (continued)

3. Customer concentrations (Gross)

	2021			
	Retail RO'000	Corporate RO'000	Government RO'000	Total RO'000
Balances with CBO	-	-	21,217	**21,217**
Due from Banks	-	13,831	-	**13,831**
Total financing	175,505	325,750	-	**501,255**
Investments	-	18,605	61,507	**80,112**
Letter of credit / Guarantee	315	19,879	-	**20,194**
Acceptances	-	46,381	-	**46,381**
Unutilized exposure	-	48,334	-	**48,334**
Accrued profit	313	20,533	404	**21,250**
Total	**176,133**	**493,313**	**83,128**	**752,574**

	2020			
	Retail RO'000	Corporate RO'000	Government RO'000	Total RO'000
Balances with CBO	-	-	11,809	11,809
Due from Banks	-	8,840	-	8,840
Total financing	179,100	304,456	-	483,556
Investments	-	18,629	61,366	79,995
Letter of credit / Guarantee	-	29,355	-	29,355
Acceptances	-	23,275	-	23,275
Unutilized exposure	-	54,931	-	54,931
Accrued profit	411	12,982	404	13,797
Total	179,511	452,468	73,579	705,558

35. Financial risk management (continued)

Credit risk (continued)

4. Sector concentrations (Gross)

2021	Balances with CBO RO'000	Due from Banks RO'000	Total financing RO'000	Investments RO'000	Letter of credit / Guarantee RO'000	Acceptances RO'000	Unutilized exposure RO'000	Accrued profit RO'000	Total RO'000
Import trade	-	-	26,106	-	1,170	-	7,734	77	**35,087**
Export trade	-	-	-	-	10	-	-	-	**10**
Wholesale & retail trade	-	-	15,705	-	531	-	3,097	398	**19,731**
Mining & quarrying	-	-	5,159	-	76	46,200	-	2	**51,437**
Construction	-	-	163,989	-	9,785	78	19,157	13,430	**206,439**
Manufacturing	-	-	31,900	-	2,452	47	13,127	731	**48,257**
Electricity, gas and water	-	-	3,909	-	9	-	339	55	**4,312**
Transport & communication	-	-	187	-	-	-	17	15	**219**
Financial institutions	-	13,831	850	18,605	44	-	946	361	**34,637**
Services	-	-	58,032	-	371	-	616	5,099	**64,118**
Government	21,217	-	-	61,507	-	-	-	404	**83,128**
Retail	-	-	175,505	-	315	-	-	313	**176,133**
Agriculture and allied Activities	-	-	8,485	-	4,183	-	959	3	**13,630**
Others	-	-	11,428	-	1,248	56	2,342	362	**15,436**
Total	**21,217**	**13,831**	**501,255**	**80,112**	**20,194**	**46,381**	**48,334**	**21,250**	**752,574**

35. Financial risk management (continued)

Credit risk (continued)

4. Sector concentrations (Gross) (continued)

2020	Balances with CBO RO'000	Due from Banks RO'000	Total financing RO'000	Investments RO'000	Letter of credit / Guarantee RO'000	Acceptances RO'000	Unutilized exposure RO'000	Accrued profit RO'000	Total RO'000
Import trade	-	-	19,240	-	1,239	79	12,007	400	32,965
Export trade	-	-	-	-	10	-	-	-	10
Wholesale & retail trade	-	-	15,979	-	1,522	60	3,660	134	21,355
Mining & quarrying	-	-	4,475	-	71	17,325	331	54	22,256
Construction	-	-	169,061	-	9,406	289	18,496	8,431	205,683
Manufacturing	-	-	24,173	-	15,958	5,522	12,888	579	59,120
Electricity, gas and water	-	-	2,527	-	25	-	-	25	2,577
Transport & communication	-	-	189	-	-	-	54	7	250
Financial institutions	-	8,840	393	18,629	45	-	2,903	361	31,171
Services	-	-	48,801	-	187	-	239	2,676	51,903
Government	11,809	-	-	61,366	-	-	-	404	73,579
Retail	-	-	179,100	-	-	-	-	411	179,511
Agriculture and allied Activities	-	-	7,347	-	607	-	2,735	30	10,719
Others	-	-	12,271	-	285	-	1,618	285	14,459
Total	11,809	8,840	483,556	79,995	29,355	23,275	54,931	13,797	705,558

35. Financial risk management (continued)

Credit risk (continued)

5. Credit quality concentration (Gross)

	2021			
	Performing Not Past Due RO'000	Performing Past Due RO'000	Non-Performing RO'000	Total RO'000
Balances with CBO	21,217	-	-	**21,217**
Due from Banks	13,831	-	-	**13,831**
Total financing	467,005	29,583	4,667	**501,255**
Investments	80,112	-	-	**80,112**
Letter of credit / Guarantee	20,194	-	-	**20,194**
Acceptances	46,381	-	-	**46,381**
Unutilized exposure	48,334	-	-	**48,334**
Accrued profit	19,819	541	890	**21,250**
Total	**716,893**	**30,124**	**5,557**	**752,574**

	2020			
	Performing Not Past Due RO'000	Performing Past Due RO'000	Non-Performing RO'000	Total RO'000
Balances with CBO	11,809	-	-	11,809
Due from Banks	8,840	-	-	8,840
Total financing	462,969	16,068	4,519	483,556
Investments	79,995	-	-	79,995
Letter of credit / Guarantee	29,355	-	-	29,355
Acceptances	23,275	-	-	23,275
Unutilized exposure	54,931	-	-	54,931
Accrued profit	12,624	517	656	13,797
Total	683,798	16,585	5,175	705,558

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk (SICR)

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

For retail exposures, a significant increase in credit risk cannot be assessed using forward-looking information at an individual account level. Therefore, the assessment is done at the segment level. Segment migration thresholds exist for each PD model by product which considers the proportionate change in PD as well as the absolute change in PD. The thresholds used for PD migration are reviewed and assessed at least annually, unless there is a significant change in credit risk management practices in which case the review is brought forward.

For non-retail exposures the Window uses an internal risk rating scale (IG codes) for its non-retail exposures. All non-retail exposures have an IG code assigned that reflects the probability of default of the customer. Both customer specific and non-customer specific (i.e. macroeconomic) forward-looking information is considered and reflected in the IG rating. Significant increase in credit risk is evaluated based on the migration of the exposures among IG codes.

Incorporation of forward-looking information

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

Economic variable assumptions

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

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

Predicted relationships between the macroeconomic indicators, default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 15 years.

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

Credit risk grading

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

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

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

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

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

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Balances with CBO								
High grade	-	21,217	-	-	-	-	**-**	**21,217**
Standard grade	-	-	-	-	-	-	**-**	**-**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**-**	**21,217**	**-**	**-**	**-**	**-**	**-**	**21,217**
Banks								
High grade	-	-	-	-	-	-	**-**	**-**
Standard grade	1	13,831	-	-	-	-	**1**	**13,831**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**1**	**13,831**	**-**	**-**	**-**	**-**	**1**	**13,831**
Financing to customers Corporate and SME								
High grade	78	30,273	30	15,457	-	-	**108**	**45,730**
Standard grade	3,826	137,330	455	49,928	-	-	**4,281**	**187,258**
Satisfactory grade	182	16,228	3,563	72,331	-	-	**3,745**	**88,559**
Non-performing	-	-	-	-	1,328	4,203	**1,328**	**4,203**
Total	**4,086**	**183,831**	**4,048**	**137,716**	**1,328**	**4,203**	**9,462**	**325,750**
Retail (Personal)								
High grade	46	12,522	-	-	-	-	**46**	**12,522**
Standard grade	10	838	-	-	-	-	**10**	**838**
Satisfactory grade	-	-	21	118	-	-	**21**	**118**
Non-performing	-	-	-	-	57	103	**57**	**103**
Total	**56**	**13,360**	**21**	**118**	**57**	**103**	**134**	**13,581**

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Retail (Housing and credit card receivables)								
High grade	469	160,266	180	631	-	-	**649**	**160,897**
Standard grade	-	-	77	429	-	-	**77**	**429**
Satisfactory grade	-	-	66	237	-	-	**66**	**237**
Non-performing	-	-	-	-	224	361	**224**	**361**
Total	**469**	**160,266**	**323**	**1,297**	**224**	**361**	**1,016**	**161,924**
Total financing	**4,611**	**357,457**	**4,392**	**139,131**	**1,609**	**4,667**	**10,612**	**501,255**
Investments								
High grade	-	61,507	-	-	-	-	**-**	**61,507**
Standard grade	150	18,605	-	-	-	-	**150**	**18,605**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**150**	**80,112**	**-**	**-**	**-**	**-**	**150**	**80,112**
Letter of credit / Guarantees								
Corporate and SME	45	10,604	77	9,275	-	-	**122**	**19,879**
Retail	-	315	-	-	-	-	**-**	**315**
Total	**45**	**10,919**	**77**	**9,275**	**-**	**-**	**122**	**20,194**
Others								
Unutilised	86	21,273	250	27,061	-	-	**336**	**48,334**
Acceptances	390	46,327	-	54	-	-	**390**	**46,381**
Accrued profit	9	13,042	13	7,318	836	890	**858**	**21,250**
Total	**485**	**80,642**	**263**	**34,433**	**836**	**890**	**1,584**	**115,965**
Total portfolio	**5,292**	**564,178**	**4,732**	**182,839**	**2,445**	**5,557**	**12,469**	**752,574**

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Balances with CBO								
High grade	-	11,809	-	-	-	-	-	11,809
Standard grade	-	-	-	-	-	-	-	-
Satisfactory grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	-	11,809	-	-	-	-	-	11,809
Banks								
High grade	-	-	-	-	-	-	-	-
Standard grade	1	8,840	-	-	-	-	1	8,840
Satisfactory grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	1	8,840	-	-	-	-	1	8,840
Financing to customers Corporate and SME								
High grade	85	43,472	20	6,926	-	-	105	50,398
Standard grade	1,853	161,668	289	25,487	-	-	2,142	187,155
Satisfactory grade	99	10,495	4,189	52,206	-	-	4,288	62,701
Non-performing	-	-	-	-	1,326	4,202	1,326	4,202
Total	2,037	215,635	4,498	84,619	1,326	4,202	7,861	304,456
Retail (Personal)								
High grade	67	12,159	-	-	-	-	67	12,159
Standard grade	6	312	-	-	-	-	6	312
Satisfactory grade	-	-	1	6	-	-	1	6
Non-performing	-	-	-	-	25	40	25	40
Total	73	12,471	1	6	25	40	99	12,517

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Retail (Housing and credit card receivables)								
High grade	362	166,111	15	49	-	-	377	166,160
Standard grade	-	-	5	31	-	-	5	31
Satisfactory grade	-	-	35	115	-	-	35	115
Non-performing	-	-	-	-	159	277	159	277
Total	362	166,111	55	195	159	277	576	166,583
Total financing	2,472	394,217	4,554	84,820	1,510	4,519	8,536	483,556
Investments								
High grade	-	61,366	-	-	-	-	-	61,366
Standard grade	129	18,629	-	-	-	-	129	18,629
Satisfactory grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	129	79,995	-	-	-	-	129	79,995
Letter of credit / Guarantees								
Corporate and SME	52	20,964	58	8,391	-	-	110	29,355
Retail	-	-	-	-	-	-	-	-
Total	52	20,964	58	8,391	-	-	110	29,355
Others								
Unutilised	102	38,328	147	16,603	-	-	249	54,931
Acceptances	168	23,086	-	189	-	-	168	23,275
Accrued profit	5	10,120	6	3,021	627	656	638	13,797
Total	275	71,534	153	19,813	627	656	1,055	92,003
Total portfolio	2,929	587,359	4,765	113,024	2,137	5,175	9,831	705,558

Retail related housing and credit card receivable portfolio is not rated and currently it is categorized based on days past due bucket.

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

The gross exposure of the financial assets as at 31 December 2021 along with reconciliations from the opening to the closing balance by class of financial instruments are as follows:

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Balances with CBO								
Opening balance	-	11,809	-	-	-	-	**-**	**11,809**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	9,408	-	-	-	-	**-**	**9,408**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**-**	**21,217**	**-**	**-**	**-**	**-**	**-**	**21,217**
Banks								
Opening balance	1	8,840	-	-	-	-	**1**	**8,840**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	4,938	-	-	-	-	**-**	**4,938**
Financial asset originated during the year	-	53	-	-	-	-	**-**	**53**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**1**	**13,831**	**-**	**-**	**-**	**-**	**1**	**13,831**

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Total financing								
Opening balance	2,472	394,217	4,554	84,820	1,510	4,519	**8,536**	**483,556**
Initial application on FAS 31	-	631	1	758	2	2	**3**	**1,391**
Transfer between stages								
- Transfer from Stage 1 to 2	(206)	(48,572)	206	48,572	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(3)	(179)	-	-	3	179	**-**	**-**
- Transfer from Stage 2 to 1	98	5,970	(98)	(5,970)	-	-	**-**	**-**
	(111)	(42,781)	108	42,602	3	179	**-**	**-**
Re-measurement of outstanding	2,125	(2,836)	(111)	(1,502)	94	(33)	**2,108**	**(4,371)**
Financial asset originated during the year	233	51,601	148	42,675	-	-	**381**	**94,276**
Financial asset matured during the year	(108)	(43,375)	(308)	(30,222)	-	-	**(416)**	**(73,597)**
Closing balance	**4,611**	**357,457**	**4,392**	**139,131**	**1,609**	**4,667**	**10,612**	**501,255**
Corporate and SME								
Opening balance	2,037	215,635	4,498	84,619	1,326	4,202	**7,861**	**304,456**
Initial application on FAS 31	-	631	1	758	2	2	**3**	**1,391**
Transfer between stages	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 2	(200)	(47,306)	200	47,306	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	(14)	-	-	-	14	**-**	**-**
- Transfer from Stage 2 to 1	93	5,939	(93)	(5,939)	-	-	**-**	**-**
	(107)	(41,381)	107	41,367	-	14	**-**	**-**
Re-measurement of outstanding	2,044	4,785	(392)	(1,461)	-	(15)	**1,652**	**3,309**
Financial asset originated during the year	204	41,445	142	42,655	-	-	**346**	**84,100**
Financial asset matured during the year	(92)	(37,284)	(308)	(30,222)	-	-	**(400)**	**(67,506)**
Closing balance	**4,086**	**183,831**	**4,048**	**137,716**	**1,328**	**4,203**	**9,462**	**325,750**

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Retail								
Opening balance	435	178,582	56	201	184	317	**675**	**179,100**
Transfer between stages	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 2	(6)	(1,266)	6	1,266	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(3)	(165)	-	-	3	165	**-**	**-**
- Transfer from Stage 2 to 1	5	31	(5)	(31)	-	-	**-**	**-**
	(4)	(1,400)	1	1,235	3	165	**-**	**-**
Re-measurement of outstanding	81	(7,621)	281	(41)	94	(18)	**456**	**(7,680)**
Financial asset originated during the year	29	10,156	6	20	-	-	**35**	**10,176**
Financial asset matured during the year	(16)	(6,091)	-	-	-	-	**(16)**	**(6,091)**
Closing balance	**525**	**173,626**	**344**	**1,415**	**281**	**464**	**1,150**	**175,505**
Investments								
Opening balance	129	79,995	-	-	-	-	**129**	**79,995**
Transfer between stages	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	21	117	-	-	-	-	**21**	**117**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**150**	**80,112**	**-**	**-**	**-**	**-**	**150**	**80,112**

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Letter of credit / Guarantees								
Opening balance	52	20,964	58	8,391	-	-	**110**	**29,355**
Transfer between stages	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 2	(5)	(479)	5	479	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	71	-	(71)	-	-	**-**	**-**
	(5)	(408)	5	408	-	-	**-**	**-**
Re-measurement of outstanding	(15)	6	(2)	(406)	-	-	**(17)**	**(400)**
Financial asset originated during the year	24	8,860	25	4,605	-	-	**49**	**13,465**
Financial asset matured during the year	(11)	(18,503)	(9)	(3,723)	-	-	**(20)**	**(22,226)**
Closing balance	**45**	**10,919**	**77**	**9,275**	**-**	**-**	**122**	**20,194**
Acceptances								
Opening balance	168	23,086	-	189	-	-	**168**	**23,275**
Transfer between stages	-	-	-		-	-	**-**	**-**
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	390	46,327	-	54	-	-	**390**	**46,381**
Financial asset matured during the year	(168)	(23,086)	-	(189)	-	-	**(168)**	**(23,275)**
Closing balance	**390**	**46,327**	**-**	**54**	**-**	**-**	**390**	**46,381**

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Unutilised limits								
Opening balance	102	38,328	147	16,603	-	-	**249**	**54,931**
Transfer between stages	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 2	(6)	(3,460)	6	3,460	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	12	2,687	(12)	(2,687)	-	-	**-**	**-**
	6	(773)	(6)	773	-	-	**-**	**-**
Re-measurement of outstanding	(26)	(11,565)	21	2,616	-	-	**(5)**	**(8,949)**
Financial asset originated during the year	62	12,102	153	13,167	-	-	**215**	**25,269**
Financial asset matured during the year	(58)	(16,819)	(65)	(6,098)	-	-	**(123)**	**(22,917)**
Closing balance	**86**	**21,273**	**250**	**27,061**	**-**	**-**	**336**	**48,334**
Accrued profit								
Opening balance	5	10,120	6	3,021	627	656	**638**	**13,797**
Initial application on FAS 31	-	(631)	(1)	(758)	(2)	(2)	**(3)**	**(1,391)**
Transfer between stages	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 2	(1)	(1,999)	1	1,999	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	66	-	(66)	-	-	**-**	**-**
	(1)	(1,933)	1	1,933	-	-	**-**	**-**
Re-measurement of outstanding	6	5,454	7	3,544	209	234	**222**	**9,232**
Financial asset originated during the year	-	299	-	1	-	-	**-**	**300**
Financial asset matured during the year	(1)	(267)	-	(423)	2	2	**1**	**(688)**
Closing balance	**9**	**13,042**	**13**	**7,318**	**836**	**890**	**858**	**21,250**

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Balances with CBO								
Opening balance	-	41,108	-	-	-	-	-	41,108
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	(21,599)	-	-	-	-	-	(21,599)
Financial asset originated during the year	-	-	-	-	-	-	-	-
Financial asset matured during the year	-	(7,700)	-	-	-	-	-	(7,700)
Closing balance	-	11,809	-	-	-	-	-	11,809
Banks								
Opening balance	2	24,747	-	-	-	-	2	24,747
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	(4,380)	-	-	-	-	-	(4,380)
Financial asset originated during the year	-	23	-	-	-	-	-	23
Financial asset matured during the year	(1)	(11,550)	-	-	-	-	(1)	(11,550)
Closing balance	1	8,840	-	-	-	-	1	8,840

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Total financing								
Opening balance	1,067	353,941	3,437	94,618	928	2,878	5,432	451,437
Transfer between stages								
- Transfer from Stage 1 to 2	(26)	(6,018)	26	6,018	-	-	-	-
- Transfer from Stage 1 to 3	-	(158)	-	-	-	158	-	-
- Transfer from Stage 2 to 1	163	13,347	(163)	(13,347)	-	-	-	-
- Transfer from Stage 2 to 3	-	-	(272)	(1,483)	272	1,483	-	-
	137	7,171	(409)	(8,812)	272	1,641	-	-
Re-measurement of outstanding	1,006	(2,748)	1,448	(3,423)	307	(10)	2,761	(6,181)
Financial asset originated during the year	314	66,033	152	20,159	3	10	469	86,202
Financial asset matured during the year	(52)	(30,180)	(74)	(17,722)	-	-	(126)	(47,902)
Closing balance	2,472	394,217	4,554	84,820	1,510	4,519	8,536	483,556
Corporate and SME								
Opening balance	761	179,360	3,412	94,462	815	2,654	4,988	276,476
Transfer between stages								
- Transfer from Stage 1 to 2	(26)	(5,814)	26	5,814	-	-	-	-
- Transfer from Stage 1 to 3	-	(76)	-	-	-	76	-	-
- Transfer from Stage 2 to 1	138	13,190	(138)	(13,190)	-	-	-	-
- Transfer from Stage 2 to 3	-	-	(272)	(1,483)	272	1,483	-	-
	112	7,300	(384)	(8,859)	272	1,559	-	-
Re-measurement of outstanding	932	1,922	1,392	(3,421)	239	(11)	2,563	(1,510)
Financial asset originated during the year	277	52,754	152	20,159	-	-	429	72,913
Financial asset matured during the year	(45)	(25,701)	(74)	(17,722)	-	-	(119)	(43,423)
Closing balance	2,037	215,635	4,498	84,619	1,326	4,202	7,861	304,456

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Retail								
Opening balance	306	174,581	25	156	113	224	444	174,961
Transfer between stages								
- Transfer from Stage 1 to 2	-	(204)	-	204	-	-	-	-
- Transfer from Stage 1 to 3	-	(82)	-	-	-	82	-	-
- Transfer from Stage 2 to 1	25	157	(25)	(157)	-	-	-	-
	25	(129)	(25)	47	-	82	-	-
Re-measurement of outstanding	74	(4,670)	56	(2)	68	1	198	(4,671)
Financial asset originated during the year	37	13,279	-	-	3	10	40	13,289
Financial asset matured during the year	(7)	(4,479)	-	-	-	-	(7)	(4,479)
Closing balance	435	178,582	56	201	184	317	675	179,100
Investments								
Opening balance	125	62,586	-	-	-	-	125	62,586
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	(2,231)	-	-	-	-	-	(2,231)
Financial asset originated during the year	4	36,003	-	-	-	-	4	36,003
Financial asset matured during the year	-	(16,363)	-	-	-	-	-	(16,363)
Closing balance	129	79,995	-	-	-	-	129	79,995

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Letter of credit / Guarantees								
Opening balance	18	5,353	93	21,266	-	-	111	26,619
Transfer between stages								
- Transfer from Stage 1 to 2	(3)	(1,244)	3	1,244	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	3	168	(3)	(168)	-	-	-	-
	-	(1,076)	-	1,076	-	-	-	-
Re-measurement of outstanding	-	(409)	(7)	(418)	-	-	(7)	(827)
Financial asset originated during the year	40	19,319	12	2,759	-	-	52	22,078
Financial asset matured during the year	(6)	(2,223)	(40)	(16,292)	-	-	(46)	(18,515)
Closing balance	52	20,964	58	8,391	-	-	110	29,355
Acceptances								
Opening balance	-	656	1	209	-	-	1	865
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	-	-	-	-	-	-	-
Financial asset originated during the year	168	23,086	-	189	-	-	168	23,275
Financial asset matured during the year	-	(656)	(1)	(209)	-	-	(1)	(865)
Closing balance	168	23,086	-	189	-	-	168	23,275

35. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Unutilised limits								
Opening balance	109	20,424	48	3,526	-	-	157	23,950
Transfer between stages								
- Transfer from Stage 1 to 2	(14)	(2,963)	14	2,963	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	5	939	(5)	(939)	-	-	-	-
	(9)	(2,024)	9	2,024	-	-	-	-
Re-measurement of outstanding	(1)	237	1	437	-	-	-	674
Financial asset originated during the year	98	37,152	132	13,203	-	-	230	50,355
Financial asset matured during the year	(95)	(17,461)	(43)	(2,587)	-	-	(138)	(20,048)
Closing balance	102	38,328	147	16,603	-	-	249	54,931
Accrued profit								
Opening balance	9	2,277	40	1,315	390	390	439	3,982
Transfer between stages								
- Transfer from Stage 1 to 2	-	(26)	-	26	-	-	-	-
- Transfer from Stage 1 to 3	1	55	(1)	(55)	-	-	-	-
- Transfer from Stage 2 to 1	-	-	(3)	(55)	3	55	-	-
	1	29	(4)	(84)	3	55	-	-
Re-measurement of outstanding	(4)	6,667	(14)	2,007	234	211	216	8,885
Financial asset originated during the year	1	1,509	-	434	-	-	1	1,943
Financial asset matured during the year	(2)	(362)	(16)	(651)	-	-	(18)	(1,013)
Closing balance	5	10,120	6	3,021	627	656	638	13,797

35. Financial risk management (continued)

Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

Maisarah's liquidity risk management is governed by the ALM risk policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

The CBO has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. As per CBO guidelines LCR should be minimum 100% on an ongoing basis with effect from 01 January 2019. However, in view of current COVID-19 situation, CBO may consider allowing banks to temporarily operate below the minimum LCR requirement of 100% but not less than a minimum of 75% up to 31 December 2021. The window is not availing the relaxation provided by CBO and is in compliance of regulatory limit of LCR as at 31 December 2021, with LCR of 312.84% (2020: 119.18%).

The NSFR is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. Maisarah needs to maintain a minimum ratio of 100% as per the regulatory guidance. The NSFR of the window as at 31 December 2021 is 126.34% (2020: 99.15%) based on closing balance position.

The full report on LCR and NSFR is disclosed by the Bank in its website.

35. Financial risk management (continued)

Liquidity risk (continued)

Maturity profile of assets (net of impairment allowance for ECL) and liabilities

	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
31 December 2021						
Cash and balances with Central Bank of Oman	23,729	-	-	-	-	**23,729**
Due from banks and financial institutions	13,830	-	-	-	-	**13,830**
Murabaha and other receivables	3,836	8,845	185	5,615	10,449	**28,930**
Mudaraba financing	891	1,782	1,782	8,909	4,213	**17,577**
Diminishing Musharaka financing	9,387	32,040	38,813	131,032	126,523	**337,795**
Investments	-	-	-	79,962	-	**79,962**
Wakala	22,980	34,478	3,981	-	-	**61,439**
Ijarah Muntahia Bittamleek	-	12	30	685	44,175	**44,902**
Other assets	20,457	9,741	36,575	-	-	**66,773**
Total assets – funded	95,110	86,898	81,366	226,203	185,360	**674,937**
Forward purchases	2,695	22,330	7,700	-	-	**32,725**
Total assets – non funded (Forwards)	**2,695**	**22,330**	**7,700**	**-**	**-**	**32,725**
Total assets – funded and non funded	**97,805**	**109,228**	**89,066**	**226,203**	**185,360**	**707,662**
Future profit cash inflows	**1,187**	**3,551**	**7,219**	**27,673**	**34,872**	**74,502**
Current accounts	10,029	5,583	3,189	-	3,988	**22,789**
Qard Hasan from Head Office	2,759	-	-	35,000	-	**37,759**
Other liabilities	6,860	9,753	36,587	128	864	**54,192**
Wakala inter bank deposits	-	-	9,625	50,400	-	**60,025**
Wakala customer deposits	28,906	84,407	92,276	98,290	45,906	**349,785**
Equity of unrestricted investment accountholders	3,224	6,447	6,446	32,216	16,148	**64,481**
Total liabilities and accountholders equity	**51,778**	**106,190**	**148,123**	**216,034**	**66,042**	**588,167**
Forward sales	2,695	22,412	7,718	-	-	**32,825**
Letter of credit and guarantees	20,194	-	-	-	-	**20,194**
Unutilised limits for financing and receivables	50,730	-	-	-	-	**50,730**
Total liabilities non funded (Forwards)	**73,619**	**22,412**	**7,718**	**-**	**-**	**103,749**
Total liabilities funded and non funded; and accountholders equity	**125,397**	**128,602**	**155,841**	**216,034**	**66,042**	**691,916**
Future profit cash outflows	**326**	**5,306**	**7,165**	**16,750**	**5,623**	**35,170**
Gap	**(27,592)**	**(19,374)**	**(66,775)**	**10,169**	**119,318**	**15,746**
Cumulative gap	**(27,592)**	**(46,966)**	**(113,741)**	**(103,572)**	**15,746**	**-**

35. Financial risk management (continued)

Liquidity risk (continued)

Maturity profile of assets (net of impairment allowance for ECL) and liabilities (continued)

	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
31 December 2020						
Cash and balances with Central Bank of Oman	14,823	-	-	-	-	14,823
Due from banks and financial institutions	8,839	-	-	-	-	8,839
Murabaha and other receivables	4,678	5,698	2,535	9,407	1,520	23,838
Mudaraba financing	667	1,333	1,333	6,666	3,123	13,122
Diminishing Musharaka financing	1,892	28,807	34,548	143,898	130,808	339,953
Investments	-	-	-	43,844	36,022	79,866
Wakala financing	51,892	-	-	-	-	51,892
Ijarah Muntahia Bittamleek	353	1,869	2,247	17,311	24,435	46,215
Other assets	13,269	5,840	17,325	-	-	36,434
Total assets – funded	96,413	43,547	57,988	221,126	195,908	614,982
Forward purchases	115,500	3,850	17,325	-	-	136,675
Total assets – non funded (Forwards)	115,500	3,850	17,325	-	-	136,675
Total assets – funded and non funded	211,913	47,397	75,313	221,126	195,908	751,657
Future profit cash inflows	3,712	13,311	14,076	63,282	40,401	134,782
Current accounts	23,078	33,222	19,061	-	23,653	99,014
Due to banks	50,000	35,400	15,400	-	-	100,800
Qard Hasan from Head Office	2,005	-	-	35,000	-	37,005
Customer Wakala term deposit	239	57,314	74,537	70,821	17,881	220,792
Other liabilities	4,714	5,840	17,325	-	528	28,407
Equity of unrestricted investment accountholders	2,673	5,346	5,346	26,728	13,390	53,483
Total liabilities and accountholders equity	82,709	137,122	131,669	132,549	55,452	539,501
Forward sales	115,500	3,860	17,487	-	-	136,847
Letter of credit and guarantees	29,355	-	-	-	-	29,355
Unutilised limits for financing and receivables	57,903	-	-	-	-	57,903
Total liabilities non funded (Forwards)	202,758	3,860	17,487	-	-	224,105
Total liabilities funded and non funded; and accountholders equity	285,467	140,982	149,156	132,549	55,452	763,606
Future profit cash outflows	99	4,311	4,805	6,575	-	15,790
Gap	(73,554)	(93,585)	(73,843)	88,577	140,456	(11,949)
Cumulative gap	(73,554)	(167,139)	(240,982)	(152,405)	(11,949)	-

35. Financial risk management (continued)

Market risk

Impact of COVID-19 on Fair Valuation of Securities

Due to the negative economic outlook from the outbreak of COVID pandemic resulting in increased profit rates on instruments in the market and reducing instruments' yields. This has resulted in the reduction of fair valuation of instruments at 31 December 2021 by RO 24 thousand (2020: 1,980 thousand).

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

1. Currency risk

Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani.

	2021			2020		
	Assets RO'000	Liabilities RO'000	Net RO'000	Assets RO'000	Liabilities RO'000	Net RO'000
US Dollars	**78,655**	**77,186**	**1,469**	111,491	126,115	14,624
Euro	**36**	**5**	**31**	29	1	28
UAE Dirham	**353**	**78**	**275**	231	1	230
Others	**91**	**-**	**91**	87	-	87
Total	**79,135**	**77,269**	**1,866**	111,838	126,117	14,969

2. Profit rate risk

Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah 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 the Maisarah's Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap

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

35. Financial risk management (continued)

Market risk (continued)

2. Profit rate risk (continued)

Profit rate sensitivity gap (continued)

	Effective average profit rates %	Due on demand and within 30 days RO 000	Due within 1 to 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
31 December 2021								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	23,729	**23,729**
Due from banks and financial institutions	**0.76%**	11,549	-	-	-	-	2,281	**13,830**
Murabaha and other receivables	**5.68%**	4,417	8,785	110	5,310	10,308	-	**28,930**
Mudaraba financing	**6.05%**	-	-	17,577	-	-	-	**17,577**
Diminishing Musharaka Financing	**5.91%**	15,606	89,663	26,002	90,478	116,046	-	**337,795**
Investments	**5.58%**	-	-	-	79,962	-	-	**79,962**
Wakala	**6.05%**	22,920	34,478	3,981	-	60	-	**61,439**
Ijara Muntahia Bittamleek	**5.45%**	-	12	19	685	44,186	-	**44,902**
Property and equipment	-	-	-	-	-	-	394	**394**
Intangibles	-	-	-	-	-	-	671	**671**
Other asset	-	-	-	-	-	-	67,911	**67,911**
Total assets		**54,492**	**132,938**	**47,689**	**176,435**	**170,600**	**94,986**	**677,140**
Current accounts	-	-	-	-	-	-	22,789	**22,789**
Qard Hasan from Head office	-	-	-	-	-	-	37,759	**37,759**
Other liabilities	-	-	-	-	-	-	54,192	**54,192**
Wakala inter bank deposits	**2.21%**	-	-	9,625	50,400	-	-	**60,025**
Wakala customer deposits	**3.77%**	1,688	40,173	68,159	102,280	137,485	-	**349,785**
Equity of unrestricted investment accountholders	**2.04%**	64,443	-	-	-	-	38	**64,481**
Owner's equity	-	-	-	-	-	-	88,109	**88,109**
Equity of accountholders & Total liabilities and shareholders' equity		**66,131**	**40,173**	**77,784**	**152,680**	**137,485**	**202,887**	**677,140**
On-balance sheet gap		**(11,639)**	**92,765**	**(30,095)**	**23,755**	**33,115**	**(107,901)**	**-**
Cumulative profit sensitivity gap		**(11,639)**	**81,126**	**51,031**	**74,786**	**107,901**	**-**	**-**

35. Financial risk management (continued)

Market risk (continued)

2. Profit rate risk (continued)

Profit rate sensitivity gap (continued)

	Effective average profit rates %	Due on demand and within 30 days RO 000	Due within 1 to 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
31 December 2020								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	14,823	14,823
Due from banks and financial institutions	1.36%	7,699	-	-	-	-	1,140	8,839
Murabaha and other receivables	5.16%	4,111	5,698	2,535	9,407	1,520	567	23,838
Mudaraba financing	6.28%	13,122	-	-	-	-	-	13,122
Diminishing Musharaka Financing	5.73%	1,892	28,807	34,548	143,898	130,808	-	339,953
Investments	5.07%	-	-	-	43,844	36,022	-	79,866
Wakala financing	5.93%	51,892	-	-	-	-	-	51,892
Ijara Muntahia Bittamleek	5.28%	353	1,869	2,247	17,311	24,435	-	46,215
Property and equipment	-	-	-	-	-	-	476	476
Intangibles	-	-	-	-	-	-	507	507
Other asset	-	-	-	-	-	-	38,991	38,991
Total assets		**79,069**	**36,374**	**39,330**	**214,460**	**192,785**	**56,504**	**618,522**
Current accounts	2.69%	14,903	26,079	14,903	-	18,629	24,500	99,014
Due to banks	1.92%	50,000	35,400	15,400	-	-	-	100,800
Qard Hasan from Head office	-	-	-	-	-	-	37,005	37,005
Customer Wakala term deposit	4.52%	239	57,314	74,537	70,821	17,881	-	220,792
Other liabilities	-	-	-	-	-	-	28,407	28,407
Equity of unrestricted investment accountholders	2.38%	53,456	-	-	-	-	27	53,483
Owner's equity		-	-	-	-	-	79,021	79,021
Equity of accountholders & Total liabilities and shareholders' equity		118,598	118,793	104,840	70,821	36,510	168,960	618,522
On-balance sheet gap		**(39,529)**	**(82,419)**	**(65,510)**	**143,639**	**156,275**	**(112,456)**	**-**
Cumulative profit sensitivity gap		**(39,529)**	**(121,948)**	**(187,458)**	**(43,819)**	**112,456**	**-**	**-**

35. Financial risk management (continued)

Market risk (continued)

3. Equity risk

Presently Maisarah is not exposed to any equity price risk as window does not have any investment in equity instruments.

Operational risk

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

36. Capital management

CBO sets and monitors capital requirements for the Bank as whole as well as individually for Islamic window. A minimum of 11% ratio of total capital to total risk-weighted assets ratio is required to be maintained by Maisarah. The regulatory capital of Islamic window is analysed into the following tiers:

- Tier I capital, which includes share capital allocated from the Head office; deduction of unrealized loss on investment at fair value through equity; and retained earnings; and
- Tier II capital, which includes the impairment provision and PER / IRR.

	2021 RO'000	2020 RO'000
Types of capital		
Tier I capital	**87,807**	78,839
Tier II capital	**7,031**	5,632
Total Regulatory Capital	**94,838**	84,471
Risk weighted assets (RWA)		
Credit risk weighted assets	**551,627**	501,974
Market risk weighted assets	**13,538**	17,375
Operational risk weighted assets	**63,777**	57,346
Total risk weighted assets	**628,942**	576,695
Capital ratios		
Tier I capital ratio (%)	**13.96%**	13.67%
Total capital as a % of RWA	**15.08%**	14.65%

37. Segmental information

Maisarah is organised into three main business segments:

(1) Retail banking – incorporating private customer current accounts, savings account, term deposits, Murabaha, Diminishing Musharaka financing and Ijarah Muntahia Bittamleek;

(2) Corporate banking – incorporating current accounts, savings account, term deposits, Murabaha, Mudaraba, Wakala and Diminishing Musharaka financing; and

(3) Treasury & investments

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

37. Segmental information (continued)

	2021			
	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	**9,430**	**19,516**	**4,642**	**33,588**
Other revenues	**329**	**1,268**	**109**	**1,706**
Total segment operating revenues	**9,759**	**20,784**	**4,751**	**35,294**
Profit expenses	**(2,928)**	**(10,452)**	**(1,778)**	**(15,158)**
Net operating income	**6,831**	**10,332**	**2,973**	**20,136**
Segment cost				
Operating expenses including depreciation	**(4,044)**	**(3,582)**	**(1,163)**	**(8,789)**
Provision for impairment	**(473)**	**(1,932)**	**(21)**	**(2,426)**
Bad Debts Written	**-**	**-**	**-**	**-**
Net profit for the year before tax	**2,314**	**4,818**	**1,789**	**8,921**
Segment assets	**176,124**	**393,098**	**118,696**	**687,918**
Less: Provision for impairment	**(1,145)**	**(9,482)**	**(151)**	**(10,778)**
Total segment assets	**174,979**	**383,616**	**118,545**	**677,140**
Segment liabilities	**6,859**	**68,409**	**39,472**	**114,740**

	2020			
	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	9,311	17,672	3,327	30,310
Other revenues	419	1,184	323	1,926
Total segment operating revenues	9,730	18,856	3,650	32,236
Profit expenses	(2,780)	(10,216)	(1,893)	(14,889)
Net operating income	6,950	8,640	1,757	17,347
Segment cost				
Operating expenses including depreciation	(2,178)	(4,130)	(1,202)	(7,510)
Provision for impairment	(229)	(3,093)	(3)	(3,325)
Bad Debts Written	-	-	-	-
Net profit for the year before tax	4,543	1,417	552	6,512
Segment assets	179,817	342,761	104,617	627,195
Less: Provision for impairment	(672)	(7,871)	(130)	(8,673)
Total segment assets	179,145	334,890	104,487	618,522
Segment liabilities	41,447	306,318	138,253	486,018

38. Changes to corresponding amounts

Certain corresponding amounts have been reclassified to conform with the presentation for the current year. Such reclassifications are considered as restatements as set out below:

1. Cash and cash equivalents

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

	2021 Revised RO'000	2020 Original RO'000
Cash flows from financing activities		
Due to banks	**31,900**	23,450
Cash and cash equivalents at the end of the year comprise:		
Cash and balances with CBO	**14,823**	14,823
Due from banks and financial institutions	**8,840**	8,840
Due to banks	**-**	(35,000)
	23,663	(11,337)

2. Purchase of property and equipment and intangibles

Payments for purchase of property and equipment and intangibles were previously netted off from due to Qard Hasan from Head Office (operational activities). These cash flows are reclassified under cash flow from investment activities. The following table presents the reclassification of payments for purchase of property and equipment and intangibles, and due to Qard Hasan from Head Office (operational activities):

	2021 Revised RO'000	2020 Original RO'000
Cash flows from operating activities		
Qard Hasan from Head Office (operational activities)	**659**	1,311
Cash flows from investing activities		
Purchase of property and equipment	**(137)**	(255)
Purchase of intangibles	**(356)**	(377)

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