ANNUAL REPORT 2021

بنك عُمان العربي

OMAN ARAB BANK

“Despite these challenges posed to our economy, we are certain that the Fiscal Balance Plan and its related procedures, as endorsed by the government recently, will undoubtedly steer our economy to the shores of safety. The economy will witness, during the next five years, rates of growth that meet the expectations of all citizens of this dear country.”

His Majesty Sultan Haitham Bin Tarik
November 2020

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Chairman's Report

Dear shareholders,

On behalf of the Board of Directors, I would like to share with you the financial results of Oman Arab Bank ('the Bank') for the financial year ended on 31 December 2021.

The macroeconomic indicators show a continued improvement in Oman's economic and financial outlook for 2021. The economic recovery is supported by the expansion of the national immunization campaign against COVID-19, which entails administrating a booster dose to target groups and a gradual return to normal conditions. The decisions taken by the Supreme Committee to address the ramifications of COVID-19, the fiscal control measures taken by the government, and the rise in oil prices have collectively contributed to the acceleration of the economic recovery pace in the Sultanate. This was manifested through a notable increase in the public revenues and a decrease in the budget deficit. The stability of the fixed exchange rate system helped to provide a sufficient import cover against the foreign reserves held at the Central Bank of Oman (CBO).

The Banking sector played a key role in supporting the Omani economy during this critical period by increasing the volume of credit granted to meet the financing needs of the economy, and providing temporary relief for affected borrowers. In this context, the Bank focused on protecting shareholders' interest, while ensuring the wellbeing of its employees, and supporting its customers and communities. The Bank has also continued to work on several fronts, including: implementing the strategic initiatives launched during 2020, prioritizing goals to ensure business continuity and progressing the implementation of projects aimed at improving the Bank's services and products. This endeavor would not have been possible without the support extended to the Bank by the CBO.

Financial Performance

Consolidated Results

The comparable figures for the consolidated Profit & Loss statement reflect the results of the standalone parent company (including 6 months of its Islamic window) and 6 months of Alizz Islamic Bank (AIB) results.

Net interest income from Conventional Banking and net income from Islamic Financing amounted to OMR 89.5 million, up 10.5% compared to the same period last year. Non-interest income was up 53.6% to OMR 32.1 million for the year compared to OMR 20.9 million for 2020, mainly reflecting the receipt of OMR 5.9 million from the insurance claim filed in relation to the fraud incident reported by the Bank in the Muscat Stock Exchange on 22 December 2020.

Operating expenses increased by 20.0% to OMR 78.5 million (2020: OMR 65.4 million), mainly due to the consolidation of twelve months of AIB in 2021 versus six months in 2020. Net impairment for credit and other losses for the period ending 31 December 2021 was OMR 35.2 million against OMR 18.6 million for the same period in 2020.The increase is driven by the prudent approach taken by the management in light of the prevailing economic environment and the impact of the pandemic on the business activities. Reflecting this conservative and proactive approach, the Bank recorded a net profit of OMR 7.1 million for the year ended 31 December 2021 compared to a net profit of OMR 14.2 million in 2020.

Net loans and financing to customers increased by OMR 108 million (up 4.1%) to OMR 2,753 million as at 31 December 2021 compared to OMR 2,645 million as at 31 December 2020. Customer deposits stood at OMR 2,810 million as of 31 December 2021, compared to OMR 2,755 million as of 31 December 2020.

The Bank's capital adequacy ratio stood at 17.75% for the year ended 31 December 2021, a healthy position against the 12.25 % minimum ratio required by the CBO. During 2021, the Bank successfully issued USD 250 million AT1 Perpetual Bonds, which was over-subscribed by more than four times, reflecting the confidence of international investors in the strength of the Omani economy in general, and our Bank in particular. The bonds were listed on International Securities Market of the London Stock Exchange, and were the first international issuance of public AT1 bonds in the last 3 years by an Omani entity.

While there has been an improvement in the overall economic indicators of the Sultanate, especially in light of the rising oil prices and rapid roll out of vaccinations, we will continue to monitor the situation during 2022, taking into consideration the recent concerns of new corona variants spreading across the world. Recognizing the prevailing economic conditions, the Board of Directors proposes that no dividend to be paid for the year.

Parent Company Performance

Net loans and advances to customers stood at OMR 1,961 million as of 31 December 2021, a growth of 1.2% compared to 31 December 2020 at OMR 1,937 million, while customer deposits stood at OMR 1,965 million as at the end of 2021, down 3.2% compared to the same period in 2020. During the year ended 31 December 2021, total operating income increased by 3.9% to OMR 95.0 million. Considering the challenging market conditions in the last two years, OAB has followed a prudent approach with higher provision for impairment losses reaching OMR 31.1 million for the year ended 31 December 2021. The capital adequacy ratio of the Parent was 18.68% as at 31 December 2021 compared to 15.26% as at the end of 2020.

Alizz Islamic Bank (AIB) Performance

2021 was a very successful year for our Islamic operations. AIB recorded a net profit for the first time since its inception amounting to OMR 4.4 million for the year ended 31 December 2021. The financing receivables grew 12.3% to OMR 793.5 million as of 31 December 2021 compared to OMR 706.6 million as of 2020. Customer deposits stood at OMR 845.2 million, up 16.7% compared to 2020. AIB has also enhanced its capital and liquidity position with strong support from the parent bank (OAB), while building the expected credit losses against credit exposures to maintain a healthy coverage.

Enhancing Customer Experience and Supporting Innovation

As part of its continuous endeavors to enhance the overall customer experience and harness the latest technology, OAB recently launched its new application for its corporate customers "OAB Digipass". The application provides a secure way for customer to access the online platform through a one-time password "OTP". OAB also launched its brand new digital service “iSend” for retail clients to instantly transfer funds to anywhere in the world at any time through the OAB's mobile application, supported by MasterCard Send technology. Moreover, the instant lending solutions embedded in the mobile application allow clients to apply for instant loans over the phone in few simple steps.

OAB launched a new program under the brand “Advantage” intended for clients looking for a unique customer experience with exclusive benefits. “Advantage” offers 1% guaranteed cashback on e-payments and point-of-sale (POS) transactions via debit card for a limited time, and attractive interest rates on saving accounts and commercial discounts.

OAB has also continued to implement the digital transformation strategy and initiatives to develop banking services and products offered to its retail and corporate clients. In this context, OAB organized the second edition of the Innovation Challenge in Q2 2021, with more than 550 participants, including students, professionals as well as Bank employees, who created digital solutions.

AIB revamped its mobile banking application and is in the process of enhancing it further for a rich customer experience. During the year, AIB introduced new and innovative products which were well received by the market. AIB also continued its efforts to enhance awareness about Islamic banking, and started a series of workshops and events under the banner of Manar Alizz in Muscat, which intends to spread this initiative to other parts of the Sultanate.

Awards & Recognitions

During the year, the Bank has received several awards from numerous parties in recognition of its various achievements across different aspects of its business.

Among the awards that acknowledged the Bank's leading position within the industry, were: Digital Transformation Excellence in the Middle East Recognition-Nintex, IFN Awards - Oman Deal of the Year 2020, Excellence in Compliance Strategy, Excellence in Branch Management, Excellence in Digital Banking and Digital Banking Services of the Year 2021.

On the employee empowerment front, the Bank received the Middle East Women Leadership Award and Excellence in Building National Talent 2021 award. The Bank was also recognized for its sponsorship initiatives through Thank You trophies from SQU for OAB's Women's Day and the Oman Charger Club.

Furthermore, the Bank received the Corporate Social Responsibility Award, reinforcing its commitment and efforts towards ensuring a better future for the community. With regard to operations and innovation, the Bank received K2 Middle East Award for its continuous dedication towards enhancing overall customer experience and overcoming challenges within its business environment through deploying innovative platforms. Additionally, the Bank received the appreciation Certificate from CBO for achieving an error rate of 0.3% and the Innovation and Technology Woman of the year 2021 award.

AIB received various awards in recognition for its brand and products including the prestigious award from Oman Economic Review for “The Most Trusted Brand amongst the Financial Institutions in Oman”, Best Premium Female Banking Segment, Best Initiative Recognising & Empowering Women, Digital Initiative of the Year and Best Rated Mobile Banking App.

Omanisation and Talent Management

During 2021, OAB Human Resources Department succeeded in launching a new smart Human Resources platform, which uses advanced technology stored on an electronic cloud. This enables all employees to access their accounts, submit their requests, and follow up procedures from within or outside the Bank, through either computers or mobile phones. The new platform also allows heads of various divisions and departments to follow up on the professional development of their employees, suggest appropriate training programs for them, set interim goals, and follow up on their achievements. Line managers can also follow up on hiring plans and submit their suggestions in this regard. The platform also includes various references and training materials that the team can benefit from for career development within OAB, references to combating fraud and money laundering, along with information on safeguarding private data. Omanisation remains a key strategic goal for the management. OAB has achieved 96% Omanisation which is one of the highest in the sector and well above the minimum requirement of 90%, in addition to achieving 82% Omanisation in senior management positions. AIB also maintains a high Omanisation ratio of 92.6%.

OAB and AIB have also completed a comprehensive vaccination process for employees and their families with two doses of vaccines approved by the Ministry of Health covered by OAB.

Sustainability and Social Responsibility - "OAB CARES"

As part of OAB's strategy to incorporate sustainability and social responsibility in all of its activities, the Bank continued its community efforts and activities over the year. OAB published its first sustainability report in the second quarter, which included detailed information on OAB's performance in relation to environmental, social and governance indicators.

During the year, OAB signed a partnership agreement with Innotech to contribute towards providing schools across the Sultanate with 3D printers. The program, which is implemented in cooperation with the Ministry of Education, aims to introduce 3D printing to tenth grade students in all governmental schools. OAB will support this pilot project by covering the cost of printers for 22 schools across the country.

In line with the Bank's strategy to support the community, specifically during exceptional circumstances such as 'cyclone Shaheen' that hit the Sultanate in October. The Bank donated an amount of OMR 300,000 to support those affected by the cyclone. A large number of Bank employees also volunteered to help in cleaning and rebuilding the affected homes and neighborhoods in the Wilayats of Al Khaboura and Al Suwaiq. On the other hand, the Bank launched an internal initiative to support employees affected by the cyclone, which included a number of effective measures.

The Bank also participated in the national initiative launched by the Environment Authority to plant 10 million trees, which is in line with Oman Vision 2040 to develop sustainable governorates and cities that balance environmental, economic, and social factors. The focus is on the optimal use and deployment of natural resources to ensure high returns for both society and the environment. The Bank aims at planting 2,800 additional trees throughout 2022.

Conclusion

On behalf of the Board of Directors, I would like to thank all shareholders for their continued trust and commitment to Oman Arab Bank Group. As our nation progresses through these unprecedented times, the Bank continues to support the measures taken by the Government of the Sultanate of Oman to preserve the economic situation of the country. I would like also to thank the executive management of the Bank and all its employees for their efforts during this exceptional year. We also extend our gratitude and appreciation to the management of the Central Bank of Oman, the Capital Market Authority, and all governmental entities, for their constant efforts to support the banking sector in the Sultanate and the wise measures taken to manage the current situation.

Lastly, we are delighted to extend our sincerest gratitude to His Majesty Sultan Haitham bin Tarik. May the Almighty protect and preserve him – for his wise leadership and sound vision of the future of this country.

Rashad Al Zubair
Chairman

Board of Directors

Mr. Rashad Al Zubair
Chairman

Mr. Wahbe Tamari
Deputy Chairman

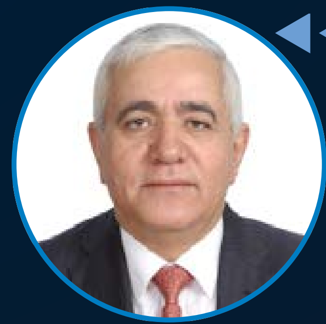
Ms. Randa Sadik
Director

Mr. Abdulaziz Al Balushi
Director

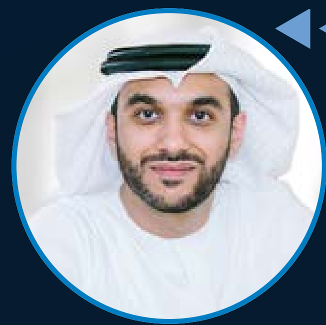
Mr. Walid Samhouri
Director

Mr. Imad Sultan
Director

Mr. Nasri Malhamé
Director



Mr. Mohammed Al Ghanma
Director



Mr. Yasir Aqil Badri
Director

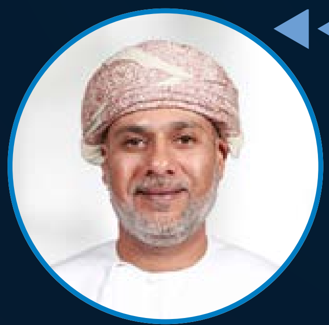
Senior Management

CB Ganesh
Acting Chief Executive Officer

Sulaiman Al Hinai
Head of Treasury, Investments & Government Relations Division

Ali Moosa
Head of Executive Management Office

Al Salt Al Kharusi
Head of Corporate & Institutional Banking Division



Essam Al Busaidi
Head of Human Resources Division

Rashad Al Shaikh
Head of Retail Banking Division

Asma Al Zadjali
Head of Banking Operations Group

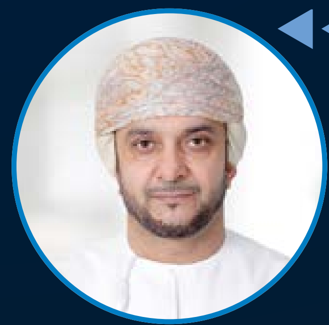
Mansoor Al Raisi
Chief Compliance Officer

Leen Al Atassi
Head of Corporate Communications

Ahmed El Damaty
Chief Financial Officer

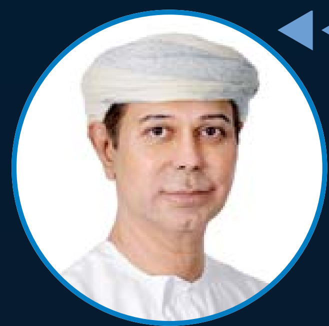
Kartik Natarajan
Head of Strategy

Hamza Moosa Baqer
Chief Audit Executive



Tariq Al Zadjali
Chief Technology Officer

Amith Kumar Singh
Chief Risk Officer



Mohamed Habib Al Lawati
Chief Credit Officer

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Auditor's Report on Corporate Governance

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P O Box 641, PC 112
Sultanate of Oman
Tel. +968 24 749600, www.kpmg.com/om

Agreed upon procedures on Code of Corporate Governance ("the Code") of Oman Arab Bank SAOG

To the Board of Directors of Oman Arab Bank SAOG

Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting Oman Arab Bank SAOG (the Bank) in connection with the Bank's compliance with the Code of Corporate Governance (the "Code") to Capital Market Authority ("CMA"), as prescribed in the CMA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code") and may not be suitable for another purpose.

Responsibilities of the Bank

The Bank has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

The Bank (also the Responsible Party) is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioners' Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with the Bank, and reporting us findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

KPMG

Oman Arab Bank SAOG
Agreed-Upon Procedures Report

Practitioners' Responsibilities (continued)

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the relevant ethical requirements including independence requirements of International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) issued by the International Ethical Standards Board for Accountants.

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Bank in the terms of the engagement letter dated 28 February 2022:

S. No	Procedures	Findings
(a)	We checked that the corporate governance report (the 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.	No exceptions noted.
(b)	We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2021. With respect to the procedure above, we inquired from and obtained written representation from the management and those charged with governance for non-compliance with the Code for the year ended 31 December 2021.	No exceptions noted.

This report relates only to the items specified above and does not extend to the Bank's financial statements taken as a whole.

KPMG

KPMG LLC
13 March 2022

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Corporate Governance Report

OAB's approach to corporate governance

Framework and Approach to corporate governance and responsibility

The Board is committed to maintain the highest standards of corporate governance. The Board believes that corporate governance is about having a set of values and behaviors that governs the Bank's and its subsidiaries (Al Izz Islamic Bank) everyday activities - values and behaviors that ensure transparency, fair dealing and protection of the interest of the Bank's stakeholders namely customers, shareholders, employees and the community. In line with this belief, the Board's approach is to consider corporate governance within the broader framework of corporate responsibility and regulatory oversight.

A Bank's level of governance and responsibility has emerged as a significant indicator of its overall health as a business. Therefore, the Bank is committed to good governance practices for the sustainability of the Bank's business and its performance.

In pursuing its commitment to best practice governance standards, the Board will continue to:

- Review and improve the governance practices.
- Monitor global developments in best corporate governance practice and
- Contribute to local debates on what represents the best corporate governance practice.

Our Governance Standards – Principles and Processes

At Oman Arab Bank, we believe that the best approach is to be guided by the principles and practices that are in our stakeholders' interests. However, as a minimum, we ensure compliance with legal requirements, in particular to the letter and spirit of the local governance practices issued by the Capital Market Authority (CMA) and the Central Bank of Oman (CBO).

This corporate governance statement is divided into two Parts. Part 1 discusses the broad principles of corporate governance adopted by the Bank. Part 2 provides specific disclosures.

Date of this statement

This statement reflects the Bank's corporate governance policies and procedures as at 31 December 2021.

Corporate Governance - Part 1

This part provides information regarding the following subjects as required under the Code of Corporate Governance issued by the CMA:

1. The Board
2. Board Committees and their role
3. Audit governance and independence
4. Executive pay and reward scheme

1. The Board

Role of the Board

The Board of Directors is accountable to the shareholders. The Board's specific responsibilities, among other things, include:

- Ensuring the business is conducted ethically and transparently
- Providing strategic direction and approving corporate strategies
- Ensuring availability and adequacy of sound policies, plans and procedures that cover all the Bank's activities in line with governing regulations
- Ensuring maintenance of adequate risk management controls and reporting mechanisms
- Monitoring management and financial performance
- Reviewing and approving the Bank's quarterly and annual financial reports
- Approving the business plan and budgets
- Selecting and evaluating the Chief Executive Officer (CEO) and senior management
- Planning for executive succession; and
- Setting Chief Executive Officer's remuneration and recommending the Directors' remuneration to the shareholders for approval in the Annual General Meeting
- Ensuring adherence to the Central Bank's and other regulatory and supervisory bodies' requirements
- Approving the appointment of the Bank's representative/s in the board of its subsidiaries (i.e. Alizz Islamic Bank) based on BRSC recommendation

Board size and Composition

The Bank's Board of Directors consist of nine members, all of whom are non-executives as mandated by the Central Bank of Oman and Capital Market Authority's regulations.

The current composition of the Board and Board Committees is set out in Part 2.

Selection and Role of the Chairman

The Chairman is a non-executive Director, appointed by the Board. The Chairman's role includes but is not limited to:

- Ensuring high standards of Corporate Governance by the Bank.
- Ensuring that when all Board members take office, they are fully briefed on the terms of their appointment, their duties and responsibilities.
- Providing effective leadership on formulating the Board's strategy.

- Representing the views of the Board to the public.
- Ensuring that the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors.
- Reviewing the contributions made by the Board members.
- Ensuring the implementation and follow up of the resolutions of the board of directors

Board Independence

According to the Bank's structure, the Board has the highest governing authority within the Bank. It is operating independently of the executive Management. The Board consists of nine non-executive directors of which four are independent.

Meetings of the Board and their Conduct

The Board meets formally at least four times a year. In addition, it meets whenever necessary to deal with specific matters requiring attention between the scheduled meetings. Meeting agendas are established by the Chairman in consultation with the CEO to ensure adequate coverage of financial, strategic and major risk areas throughout the year. Copies of Board papers are circulated in advance of meetings.

Meetings attended by the Directors during the past financial year are reported in Part 2.

Attendance at Annual General Meeting

The Directors attend, and are available to answer questions at, the Annual General Meeting.

Avoidance of Conflicts of Interest of Directors

In accordance with the constitution of the Bank, any Director with a material personal interest in any matter presented to the Board or its Committees, must not be present when the matter is being considered, and may not vote on the matter (more details under Related Party Section/paragraph).

Expertise of the Board

The Board has a broad range of expertise and experience to meet its objectives. The current Board composition, with details of each member's expertise and experience and other current Directorships, is set out in Part 2.

Nomination and Appointment of New Directors

The Board of Directors is elected by the shareholders of the Bank during the Annual General Meeting for a three-year term. The Board Remuneration and Selection Committee reviews and assesses the required skills of nominees against the Fit and Proper criteria stipulated by the CBO and CMA.

When appointed to the Board, all new Directors receive an induction appropriate to their experience to familiarize them with matters relating to the Bank's business, strategy and current issues before the Board. The term of the current Board expires in March 2022.

Review of Board Performance

The Board regularly reviews its overall performance, as well as the performance of individual Directors. The review is carried out by an independent consultant appointed by the shareholders.

Board Access to Information

The Board needs high quality, unfiltered information on which to base decisions. All Directors have unrestricted access to the Bank's records and information, and receive regular detailed financial and operational reports from senior management to enable them to carry out their duties.

2. Board Committees

The Board Committees' authorities and responsibilities are governed by the relevant Committee's terms of reference in order to enhance the role of the Board in effectively dealing with complex and specialized issues and also ensure implementation of appropriate and effective risk management and corporate governance practices. In this regard, the Board of Directors has established four sub-committees namely the Credit Committee, the Audit Committee, the Compliance and Risk Committee and the Remuneration and Selection Committee.

Operation of the Committees

Each committee is entitled to the resources and information it requires, including direct access to employees and advisers. Senior managers and other employees are invited to attend committee meetings as necessary.

Composition and Independence of the Committees

Committee members are chosen based on the skills, experience and other qualities they bring to the committees. All committees are composed of non-executive Directors.

The mechanism of Committees' reports to the Board

Minutes of every meeting of the Board Committees are included in the agenda for the first full Board meeting scheduled to be held after the committee meeting. During each meeting, chairmen of respective committees brief the Board of the outcome of each committees meeting, which includes decisions and recommendations made to mitigate the potential risks and enhance the effectiveness of internal controls.

Brief Terms of Reference of Board Committees

a) Credit Committee

The purpose of the Board Credit Committee (BCC) is to assist the Board in fulfilling its responsibilities in lending and credit activities within BCC's delegated authorities taking into consideration the Bank's credit policies, strategic and business plans. Main responsibilities of the Committee include:

- Review and make recommendations to the Board on regular basis or whenever the need arises on the credit delegated authorities of both the Management and the BCC's.
- Reviews the Bank's credit portfolio on regular basis in coordination with the Board Compliance and Risk Committee.
- Reviews and approves credit facilities above the executive management's approval limits.
- Review the Management Credit Committee's recommendations with respect to debt write-off or write-down and take the appropriate decision within the BCC's delegated authorities or escalate to the Board for a decision.
- Considers matters of special importance as delegated by the Board.

b) Board Audit Committee

The Board Audit Committee's primary responsibility is to assist the Board in fulfilling its responsibilities in relation to the external reporting of financial and non-financial information, oversight responsibilities over the system of internal control, the audit process, and the Bank's process for monitoring compliance with laws and regulations and the code of conduct. Main responsibilities of the Board Audit Committee include:

- Approves the scope of internal audit work planned for the year.
- Reviews and approves the scope of the external audit work planned for the year.
- Approves protocols governing the provision of non-audit services by the external auditor, that are outside of the scope of the external audit work to be undertaken, to ensure auditor's independency.
- Oversees and annually, reviews the performance of the Internal Audit Function.
- Ensures that the recommendations of the external and internal auditors are well addressed and implemented.
- Ensures the external and internal audit role in reviewing and auditing the IT systems/applications and the IT security.
- Ensures compliance with international accounting standards implemented in the Sultanate of Oman.
- Ensures that the Bank's financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and other applicable regulations.

c) Compliance and Risk Committee

The Board Compliance and Risk Committee's primary responsibility is to assist the Board in fulfilling its responsibilities in relation to risk management strategy and frameworks (covering credit, liquidity, market, operational and other risks) in addition to in addition to establishing a compliance function that will develop necessary systems and controls and assess the impact of new laws and regulations on the Bank's operations. Main responsibilities of the Committee include:

- Assists the Board with the formulation of the Bank's Risk Appetite Statement.
- Establishes and reviews the framework for risk management throughout the Bank covering all risks, including strategic, market, liquidity, credit, operational and reputation risks on an ongoing basis.
- Ensure the, risk management frameworks, including policies, procedures and monitoring, accurately reflects the Bank's Strategy, Risk Appetite, accepted practices and legal and regulatory requirements.
- Promotes and ensures a high level of awareness of risk management throughout the Bank.
- Reviews the strategy, plan and budget of compliance and risk management functions.
- Reviews the assessment of the Bank's risk profile to understand the key risks affecting the Bank and recommend to the Board for approval.
- Reviews and recommends the ICAAP for Board approval consistent with the Board determined risk appetite.
- Reviews regulators' or external parties (i.e. external auditors) reports on the adequacy of the Bank's Risk Management Frameworks.
- Review the effectiveness of both the Bank's Business Continuity Plans including test results.
- Reviews the adequacy of the Bank's general insurance policies established by management, and for Directors' and Officers' (D&O) insurance recommending to the Board D&O insurance for approval.
- Review Bank's policies and recommend the same to the Board for approval

- Reviews the effectiveness of the process for monitoring compliance with all applicable laws and regulations.
- Reviews the Bank's compliance arrangements to ensure they are in accordance with the Bank's objectives and strategies, as well as any regulatory or legislative requirements
- Reviews any proposed legislative or regulatory changes, the impact such changes may have on the Bank's business and the internal policies and controls which will be introduced to address these changes.
- Approve the Compliance Department/ Function's Plan and review the same on annual basis.

d) Remuneration and Selection Committee

The purpose of the Board Remuneration and Selection Committee is to assist the Board in fulfilling its responsibilities relating to remuneration and people matters, and compliance with related employment laws and regulations. It does this by ensuring that the Bank has appropriate remuneration and people systems in place and by monitoring their effectiveness. The Committee is, among other things, is responsible for:

- Develop succession plans for the Board or at least the chairperson.
- Prepare detailed job description for the role and responsibilities of Directors including the Chairperson.
- Nominate qualified persons to act as interim (temporary) Director(s) on the Board in the event that a position becomes vacant; and
- Develop proper Board Remuneration policy and review it annually, taking into account market conditions and the Bank's performance.
- Ensure on annual basis the absence of any conflict of interest with respect to the membership of any in Board of other companies.
- Review Board membership criteria taking into consideration skills and competencies needed for the Board and its Committees.
- Recommend to the Board the appointment of the Chief Executive Officer (should be a resident in the Sultanate of Oman), Deputy Chief Executive Officer, General Managers/deputies and Assistant General Managers, Head of Audit, Chief Risk Officer, Chief Compliance Officer and Legal Advisor as well as determining their remunerations and responsibilities.
- Review and monitor Omanization plans and compliance with the Omani Labor Law, related laws and regulations, Central Bank of Oman and Capital Market Authority instructions and regulations.
- Approve the annual remuneration for the executive management team (including salaries, performance bonus, performance-based incentives and other benefits).

Composition of the Committee and Meetings.

The current committee memberships together with dates of meetings held are set out in Part 2.

Each Board Committee shall comprise of at least three members. The Board committees shall convene at least four times a year, except the Remuneration and Selection Committee which shall convene at least twice a year.

3. Audit Governance and Independence

The Board is committed to three basic principles:

- The Bank must produce accurate and fair financial reports;

- The Bank must have independent auditors who serve shareholders' interests by ensuring that shareholders know the Bank's actual financial position; and
- The accounting and auditing standards are comprehensive and relevant and comply with applicable accounting standards and policies.

Engagement of Auditors

The Bank's independent external auditors are KPMG for the financial year ended at 31 December 2021. They were appointed by shareholders at the Annual General Meeting held on 28 March 2021.

Certification and Discussions with Auditors on Independence

The Board Audit Committee requires the Bank's external auditors to confirm that they maintained their independence at the commencement and during the audit. Board Audit Committee also meets with the external auditors to discuss their audit and any concerns they may have.

Rotation of External Auditors

Subject to applicable regulatory requirements, the Bank will require rotation of the external auditor every four years and a minimum two years' 'cooling off' period before an auditor is reappointed.

Attendance at Annual General Meeting

The Bank's auditors attend, and are available to answer questions at, the Annual General Meeting.

4. Executive Pay and Reward Schemes

Overview

The Bank's goal in rewarding the CEO and other executives is to provide base pay plus performance-linked rewards and other benefits that will attract and retain key executives. The Bank's policy is to provide individual performers with a level of income that:

- Recognizes the market value of each position in a competitive market;
- Rewards the individual's capabilities and experience;
- Recognizes the performance of individuals and
- Assists in executive retention.

To do this, the Bank has designed a fair and transparent structure for rewarding the Bank's executives that matches comparable remuneration in the marketplace.

Senior Management Remuneration

The remuneration of the CEO is recommended by the Board Remuneration and Selection Committee and approved by the Board of Directors. The CEO recommends the pay and reward packages for key senior management staff consistent with the market practice and this is approved by the Board Remuneration and Selection Committee. Fees paid to each Director during the 12 month period ended 31 December 2021 together with pay and rewards for the Bank's key management personnel are set out in Part 2.

Corporate Governance - Part 2

1. Profiles of members of Board of Directors

Mr. Rashad Al Zubair - Chairman

Mr. Rashad Al-Zubair is the Chairman of the Zubair Corporation ("Z-Corp"), a leading business group in the Sultanate of Oman, with business interests extending to Automotive, Energy & Logistics, Engineering Construction & Contracting, Financial Services, Manufacturing and Real Estate & Hospitality. He steers the affairs of the Board, and acts as its representative in major matters and significant business relationships. Before taking over his current position in 2010, he has been President of Zubair Automotive, and thereafter Group President of The Zubair Corporation for a number of years.

Mr. Al Zubair has been the Chairman of Oman Arab Bank since June 1999. He is also the Chairman of the Zubair Holding SAOC and Oasis Water Company SAOC as well as Vice Chairman of Barr Al Jissah Resort Co SAOC. He is the Vice Chairman and Founder Member of Muscat University.

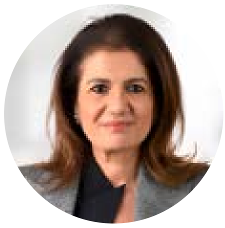
Mr. Al Zubair has held directorships (including the office of Chairman), in several prominent joint stock companies. He was the Deputy Chairman of the Oman Business Council and member of its founding Directors. Until recently he was the founding Chairman of Oman German Friendship Association. He also served as Director of the Capital Market Authority, the regulatory body of the Muscat Securities Market and is a member of the newly formed Oman Centre for Governance & Sustainability.

Mr. Wahbe Tamari - Deputy Chairman

Mr. Wahbe Tamari is currently Chairman of the Board of Arab Bank Switzerland Ltd. and Arabia Insurance Company SAL. He is also an active member of the board of Arab Bank Plc, Sucafina SA, Solidere International Plc, as well as a number of other companies active in various domains. He leads numerous projects in financial services and real estate. His deep understanding and passion for commodities began with his internship at Merrill Lynch London in 1982; later he joined Sucafina SA, a company established by and belonging to his family which he managed between 1988 and 2004. Sucafina SA is a leading sustainable Farm to Roaster coffee company, with a family tradition in commodities that stretches back to 1905. Today, with more than one thousand employees spread over thirty countries, Sucafina Group is one of the leading coffee trading houses in the world, and one of the few focused entirely on the coffee business. Sucafina Group's extensive supply chains span from producer-facing export operations to destination sales offices around the world.

Mr. Tamari is an active member of YPO (Young President Organization) having previously taken the lead of their Alpine Chapter and serves on a variety of philanthropic councils that mainly focus on the education of young people. He sits on the board of LIFE (Lebanese International Finance Executives) a global network of Lebanese professionals working together towards a brighter future, and on the Board of the Tamari Foundation whose mission is to be a catalyst for change through a variety of educational initiatives and projects focusing on human well-being within developing nations. Mr. Tamari resides in Abu Dhabi and was born in Beirut, Lebanon. He is a graduate of Webster University Geneva with a BA in Management and Harvard Business School in 2013.

Ms. Randa El Sadek - Board Member



Ms. Randa El Sadek is currently the Chief Executive Officer of Arab Bank in Jordan. Previously, she was holding the position of deputy CEO of the Bank. She has more than 30 years experience in international sector. She worked with the National Bank of Kuwait for 23 years where she was the Group General Manager of the International Banking Group in charge of the bank's international activities, branches and subsidiaries worldwide. She was a member of the bank's Management Executive Committee and served on the Boards of Directors of the bank's overseas subsidiaries and was Managing Director of London based National Bank of Kuwait (International) Plc.

In addition to her current position, Ms. Randa El Sadek is also the Chairman of Arab Tunisian Bank, the Vice Chairman of Arab Bank Australia. She is chairman of Al Arabi Finance Holdings in Lebanon and chairman of the Directors of Al Arabi Investment Group in Jordan.

Ms. Randa El Sadek holds an MBA in Finance from the American University of Beirut.

Mr. Abdulaziz Al Balushi - Board Member

Mr. Abdulaziz Mohammed Al Balushi is the Chief Executive Officer of OMINVEST, major shareholder of Oman Arab Bank. He is an experienced and professional banker with more than 28 years of experience in the banking industry and capital markets. He was the CEO of Ahli bank SAOG from 2007 to 2013 and was primarily responsible for converting a single product mortgage bank into a full-fledged commercial bank.

During his tenure, Ahli bank won many prestigious awards including the best bank of Oman for three consecutive years by OER, the best bank in Oman 2012 by World Finance and the Bankers award 2013. In a career that has spanned over two decades, Mr. Al Balushi has held positions of increasing responsibility in all major areas of Banking. He started his career with Oman International Bank and prior to joining Ahli bank, he was Deputy CEO of National Bank of Oman. He holds Master of Science Degree in Finance from the University of Strathclyde (UK) and a Fellow Chartered Institute of Bankers (UK). He has attended a host of Specialized Executive Management Development Programs at International Institutes of worldwide repute such as Strathclyde; London and INSEAD Business Schools. In November 2012, he was ranked as the "Second Best CEO in the Arab Banking World" by Forbes Magazine.

Mr. Al Balushi served in various Boards of companies across the Sultanate including ONIC Holding, Al Ahlia Insurance Company, National Life Insurance, Oman Investment & Finance Company, Gulf Hotels Co. and as an Advisory Board Member in the College of Agricultural and Marine Services at Sultan Qaboos University. Currently, he is the Chairman of Oman Real Estate Investments and Services SAOC and Salalah Resorts SAOC; and Deputy Chairman of Jabreen Capital. He is also a Board member at Oman Arab Bank SAOG, National Life and General Insurance Company SAOG and National Finance Company SAOG. Additionally, he is a member of Oman American Business Center, an organization formed to foster the development of commercial activity between the United States of America and the Sultanate of Oman. Mr. Al Balushi is also a Fellow of the Institute of Financial Services, an organisation supporting professionalism in financial services.

Mr. Walid Al Samhouri - Board Member

Mr. Walid Al Samhouri is Executive Vice President – Jordan Country Head at Arab Bank. He has a vast banking experience for more than 33 years with Arab Bank where he worked in different geographies and handled various responsibilities in the Corporate and Institutional Banking, Credit, Banking Operations, Commercial and Trade Finance.

Mr. Al Samhouri is the Chairman of Arab Sudanese Bank -Sudan, and a board member of Arab Tunisian Bank, Tunisia. He is also a board member in Jordan Loan Guarantee Corporation, Jordan. He holds a Master's degree in Economics from the University of Jordan.

Mr. Imad Sultan - Board Member

Mr. Imad Sultan joined the family business at W. J. Towell & Co. LLC, (a major diversified family-owned corporation since 1866) as a Business Development Manager in 1995 and has been in the Towell Group since then. He is currently the Vice Chairman & Managing Director of W. J. Towell & Co. LLC, and the Chairman of the Executive Committee of the Group. He is also the Vice Chairman of National Hospitality Institute SAOG, Board Member and Chairman of the Nomination Committee and Member of the Executive Committee at Muscat Stock Exchange. In addition, Mr. Sultan is a Board member of Savannah Resources PLC. Formerly he served as a Director on the Boards of National Bank of Oman, Oman International Development & Investment Company SAOG. (Ominvest) and Oman Tennis Association among others. He holds a Bachelor of Science in Business Administration degree in Marketing from the American University in Washington DC, USA and has been a member of the Young Presidents Organization since 2005.

Mr. Nasri Malhamé - Board Member

Mr. Nasri Malhamé served as the CEO of Arab Bank (Switzerland) from 2009-2017. He is a board member of various entities, Arab Tunisian Bank, AB Fund Managers-Guernsey, Ubhar Capital-Oman and Chambre de commerce Arabo-Suisse, Geneva. He was also appointed as board member in Banque Du Crédit National-Lebanon.

Mr. Malhamé has previously worked at B.A.I.I. Paris, an affiliate of BNP, after that he joined BNP Paribas-Geneva as an Executive Director in charge of Private Banking and Trade Finance for Southern Europe and the MENA region, and was appointed as a member of the Executive Committee in 2000. He holds a Ph.D. in Banking and Management from Université Paris Dauphine and has set up his own consultancy firm, NVM Consulting.

Mr. Mohammed Al Ghanamah - Board Member

Mr. Mohammed Al Ghanamah has held the position of Executive Vice President and Head of Credit Division at the Head office of the Arab Bank in Jordan since 2010. He previously worked in several executive positions at the Bank, where he held the position of Executive Vice President – Global Head of Corporate and Investment Banking from 2007 to 2010.

Mr. Al Ghanamah occupied several positions between 1976 and 2010 across major regional banks, including the Saudi American Bank, Riyadh in the Kingdom of Saudi Arabia, the United Saudi Bank and the Banque Saudi Fransi. He also worked at the Gulf International Bank in Bahrain and Cairo Amman Bank in Jordan.

Mr. Al Ghanamah has over four decades of experience in the banking and management field. He is a member of several Boards of Directors, including the Islamic International Arab Bank, where he holds the position of Deputy Chairman of the Board, as well as the Arab National Bank in Saudi Arabia, the Arab Bank in Syria and T-Bank in Turkey. He is also a Chairman of the Supervisory Board of Arab National Leasing Company, Jordan and Deputy of Supervisory of AB invest in Amman, Jordan. He holds a Bachelor of Science degree in Mathematics from King Saud University in Riyadh, Saudi Arabia and a Diploma in Computer Programming from London.

Mr. Yasir Badri - Board Member

Mr. Yasir Badri is part of the Direct Investments team at Mubadala Investment Company – a sovereign investment arm of the Abu Dhabi government, managing a diverse portfolio of assets and investments worth more than USD 230 billion in the UAE and abroad. He has been with Mubadala since 2009 and currently serves as a Vice President in the Financial Services unit, focused on executing Mubadala's investment strategy in the space through fund, private, and public investments. Prior to his role in Financial Services, Mr. Badri worked in the corporate Mergers and Acquisitions team, responsible for providing transaction execution support to multiple investment units at Mubadala. Before that, he worked in the financial risk management department under Mubadala's corporate treasury.

Mr. Badri holds a Bachelor's in Science of Finance degree from the American University of Sharjah (AUS). He is also a certified Chartered Financial Analyst (CFA) since 2013.

2. Board Committees

The terms of references of the Committees are set out in Part 1.
The structure of the Board Committee is as follows.

Table 1

S.N	Director Name	Independent/ Independent	Committee*	Executive in OAB	Representing
1	Mr. Rashad Al Zubair	Independent	BRSC – Deputy Chairman BCC Chairman	No	Self
2	Mr. Wahbe Tamari	Non-Independent	BRSC Chairman	No	Arab Bank
3	Mr. Imad Sultan	Independent	BCRC Deputy Chairman BAC Member	No	Self
4	Mr. Abdul Aziz Al Balushi	Non-Independent	BRSC Member BCC - Member	No	OMINVEST
5	Ms. Randa El Sadek	Non-Independent	BCC - Deputy Chairman BRCS - member	No	Self
6	Mr. Walid Samhouri	Non-Independent	BCRC - Chairman BCC - Member	No	Self
7	Mr. Mohammed Al Ghanamah **	Non-Independent	BAC - Deputy Chairman	No	Self
8	Mr. Nasri Malhamé	Independent	BAC – Chairman	No	Self
9	Mr. Yasir Badri	Independent	BCRC – Member	No	Self

*CC: Credit Committee, RSC: Remuneration and Selection Committee, BAC: Board Audit Committee, CRC: Compliance and Risk Committee.

**: Mr. Ghassan resigned from the Board on 29/7/2021, the resignation accepted by the Board on 12/8/2021, Mr. Mohammad Al Ghanamah Joined the Board on 23/8/2021

The members of the Committees together with the number of meetings held in 2021 and attended by each member are set out in the Table 2, below.

Table 2

Director	Board Meetings (Note 1)		Credit Committee (Note 2)		Audit Committee (Note 3)		Compliance and Risk Committee (Note 4)		Remuneration and Selection Committee (Note 5)	
	No. of meetings held	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held
Rashad Muhammed Al Zubair	5	5	10	10	-	-	-	-	2	2
Wahbe Tamari	4	5	-	10	-	-	-	-	2	2
Abdul Aziz Al Balushi	5	5	9	10	-	-	-	-	2	2
Walid Samhouri	5	5	10	10	-	-	4	4	-	-
Randa El Sadek	5	5	10	10	-	-	-	-	2	2
Imad Sultan	5	5	-	10	6	6	4	4	-	-
Ghassan Tarazi	2	5	-	10	1	6	1	4	-	-
Nasri Malhamé	5	5	-	10	6	6	-	-	-	-
Yasir Aqil Badri	5	5	-	10	-	-	2	4	-	-
Mohammed Al Ghanamah	1	5	-	10	2	6	-	-	-	-

Directors' attendance record:

Note 1 Board Meetings were held on – 28th January, 7th March, 11th May, 12th August, and 11th November during 2021.

Note 2 Credit Committee meetings were held on – 12th January, 23rd Feburary, 23rd March, 25th April, 23rd May, 23rd June, 1st & 30th August, 26th September and 24th October during 2021.

Note 3 Audit Committee meetings were held on 26th January, 24th February, 19th July, 11th August, 10th Nov and 1st December during 2021.

Note 4 Compliance and Risk Committee were held on 9th May, 9th August, 14th November and 14th &15th December during 2021.

Note 5 Remuneration and Selection Committee meetings were held on 12th August and 28th September during 2021.

3. Remuneration and sitting fees

The Directors' remuneration is governed as set out in the Regulation for Public Joint Stock Companies, the Commercial Companies Law and regulations issued by the Central Bank of Oman.

An amount of RO 141,000 is proposed as Board Remuneration, in addition to the sitting fees RO 57,500 for the meetings of the Board of Directors and its committees for the year 2021. These are subject to the Annual General Meeting approval proposed to be held on March, 28, 2022.

The following table provides details of the proposed remuneration and sitting fees for the year 2021:

Table 3

Director's Name	Sitting Fees (RO)	Remuneration (RO)	Total (RO)
Rashad Muhammed Al Zubair	8,500	30,000	38,500
Wahbe Tamari	3,000	12,000	15,000
Abdul Aziz Al Balushi	8,000	15,000	23,000
Walid Samhouri	9,500	15,000	24,500
Randa El Sadek	8,500	15,000	23,500
Imad Sultan	7,500	15,000	22,500
Mohammed Ghanamah	1,500	3,000	4,500
Ghassan Tarazi	2,000	6,000	8,000
Nasri Malhamé	5,500	1,5000	20,500
Yasir Aqil Badri	3,500	15,000	18,500
Total	**57,500**	**141,000**	**198,500**

The remuneration paid to the top five key management personnel of the Bank for 2021 is RO 1,067,187 (2020: RO 1,188,161).

No stock options are available to Directors or the executives of the Bank. The Executives are required to provide 30-60 days' notice should they wish to resign.

4. Profile of Senior Management

Mr. CB Ganesh - Acting Chief Executive Officer

Mr. CB Ganesh joined OAB as Deputy CEO in February 2021 and was made Acting CEO from August 2021. Mr Ganesh is an entrepreneurial and financially astute executive with an exemplary track record of building brands, improving profitability and creating stakeholder value. He has a vast global banking experience of more than 30 years, spanning across India, Hong Kong, UAE and Oman. Mr Ganesh, an alumnus of MIT-Sloan (USA) and IIM-Calcutta (India), also holds Masters in Bank Management and Masters in Commerce degrees. He is also an Non-Executive Director Diploma holder from Financial Times (FT-NED).

Mrs. Asma Al Zadjali - Head of Banking Operations Group

Mrs. Al Zadjali was appointed Head of Banking Operations Group in May 2019. Holding a Master's in Business Administration from the University of Strathclyde. She is the Chairperson of Strathclyde Oman Alumni. Ms. Al Zadjali has over 19 years of experience working in large companies and banks. In her time at the Bank, she has been instrumental in the centralization of Retail Banking, Corporate Banking and Islamic Finance Credit Administration; thereby, ensuring asset quality and bringing in the necessary changes to establish better control and improve the turnaround times. She has also led the remedial, recovery and legal department teams, improving collection processes. Furthermore, she graduated from the National CEO Program (NCP) in May 2018 as the only candidate from the banking sector and was one of only three female candidates to have passed the stringent entry criteria for the program.

Mr. Ahmed El Damaty - Chief Financial Officer

Mr. Ahmed El Damaty, was appointed as CFO on 24th Oct, 2021. Mr. Ahmed has more than 21 years of experience in Finance. Before joining OAB, Mr. Ahmed served as the CFO of a local Bank and he also worked in the same field with other international banks outside the Sultanate. Mr. Ahmed holds a Bachelor degree in Accounting from Ain Shams University in Cairo. He is also a qualified CFA

Mr. Al Salt Al Kharusi - Head of Corporate & Institutional Banking Division

Mr. Al Salt Al Kharusi is has been the General Manager & Head of Corporate Banking & Institutional Banking since 2015. After completing his BSc. (Joint Honors) in Business Administration Management & Information Systems in Oxford Brookes University, UK, he joined HSBC Bank Oman as Credit Officer in 2001 moving his way up to become the Head of Corporate Banking in 2013. He has won a number of awards such as the regional HSBC super achiever award in the Middle East region in 2007, super achievement awards with HSBC for highest cross sales, non-funds income growth and net return generated for the Bank in Corporate Banking in 2006 & 2007.

He was involved in many training courses and workshops that helped advance his career. Some of the training courses include Finance of International Trade, Asset & Liability Management Course, and Global Relationship Management Workshop. Al Salt has an MBA degree from Strathclyde University UK.

Mr. Sulaiman Al Hinai - Head of Treasury, Investments & Government Relations Division

Mr. Sulaiman Al Hinai was appointed as Head of Treasury, Investments & Government Relations in July 2017. He is a treasury professional with regional expertise and experience spanning twenty three years in commercial banking and treasury with various local and regional banks including, Doha Bank, Qatar, Oman International Bank, Muscat and Ahli Bank SAOG, Oman.

He has earned a Banking Diploma in 2001 from Arab Academy for Banking and Financial Sciences in Jordan. He has also involved in various courses and workshops that helped elevate him in his career.

Mr. Rashad Al Shaikh - Head of Retail Banking Division

Mr. Rashad Al Shaikh the Head of Retail Banking Division in Oman Arab Bank and has over 17 years of banking experience in various fields from Corporate Banking to Project Finance, Investment Banking and Retail Banking. He has extensive experience in policy setting and is well experienced in negotiating commercial agreements. He worked with a number of international banks on various mandates that have been concluded successfully in the area of advisory. Mr. Rashad holds a B.S. in Business Administration from the University of Central Florida, Orlando, USA.

5. Internal Controls Review

The Board ensures maintaining a strong and effective control environment by developing comprehensive sound policies, plans and procedures that cover all the activities of the Bank in line with governing regulations, and ensure that the same is circulated to all Bank employees. The Board has also established various sub-committees, such as Board Audit Committee and Board Compliance and Risk Committee, to ensure the effectiveness of systems of internal controls and management of various potential risks. Under the oversight of these Committees, Internal Audit and other control functions review and evaluate the adequacy and the effectiveness of the Bank's systems and internal controls on an ongoing basis. Outcomes of such reviews are communicated to all relevant stakeholders, and are followed up and monitored to ensure effective and efficient resolution of gaps identified in order to manage and/or mitigate potential risks.

Internal Audit Charter: The Internal Audit Charter defines the purpose, authority and responsibility of the Internal Audit Division of the Bank. It supports positioning the Internal Audit Division as an independent and objective assurance and consulting activity to improve and add value to the Bank's operations, and help achieve its objectives by adopting a systematic and disciplined approach to evaluate and help enhance the effectiveness and efficiency of internal controls.

6. Related Party Transactions:

The Board of Directors in its drive to mitigate the risks of the influence of related parties on the integrity of the Bank's transactions and its financial position, and in order to implement the highest degree of transparency and clarity when dealing with the related parties has established a the necessary governance policies and processes including those governing the relationship between the Bank and its Directors and Senior Management. These policies ensure, among other things, the following:

- All related parties' transactions are undertaken on an arm's-length basis and in accordance with the prevailing regulatory requirements issued by the Central Bank of Oman and the Capital market Authority.
- Directors and Senior Management neither take part in the discussions and nor participate in the voting process over resolutions pertaining to them and their related parties.
- Related parties' transactions are reviewed by the Board Audit Committee prior to submission for the Board and or shareholders (AGM) for their appropriate action.
- All related party transactions are subject to annual review by the Internal Audit Department.
- All related parties are disclosed in the annual report.

Furthermore, the related party transactions are subject to the Central Bank of Oman and the Capital market Authority review.

7. Controlling and Managing Risk

Approach to Risk Management

Risk is inherent in banking business. Risk management is a strategic issue in today's competitive environment. Taking and managing risk are central to the Bank's business and to building shareholder value. To do this effectively the Bank optimizes its magnitude of risk. The Bank's risk approach is aligned to its vision and values, objectives, strategies, procedures and training.

The Bank recognizes four main types of risk:

- Credit risk, being the risk of financial loss from the failure of customers to honor fully/partially the terms of their contract;
- Market risk, being the risk to earnings from changes in market factors such as interest and foreign exchange rates, or liquidity and funding profiles;
- Operational risk being the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition encompasses legal risk, but excludes strategic, reputational risk; and
- Information security risk, being the probable frequency of financial, reputational or other damage to information assets, arising from a cyber-attack or breach within the system's/network.

The Board recognizes that these risk categories are interlinked and therefore it takes an integrated approach to manage them. The Bank has comprehensive risk principles/controls that apply to each category of risk.

The risk management function aims at ensuring that:

- the Bank operates its key risk activities within acceptable risk/reward parameters through establishment as well as maintenance of policies and procedures
- the trend and magnitude of risk is adequately identified, measured, monitored and controlled.

Risk Management Roles and Responsibilities

The Board is responsible for approving and reviewing the Bank's risk management strategy and policy. Executive management is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in the conduct of business.

In order to effectively manage various risks in the business, the Bank has set up a Risk Management department. The head of this department is responsible for independently evaluating and managing the risks. He reports directly to the Compliance and Risk Committee of the Board.

8. Compliance:

The Bank is committed to comply with the laws and regulations issued by the Central Bank of Oman, the Capital Market Authority and other local authorities. The Bank also strives to implement the internationally accepted best practices relating to the functions of banks. In this regard, the Bank maintains constructive and transparent relationship with the regulators, shareholders, customers and all other stakeholders. The Bank has developed framework of Bank governance, which included governance policy, relations with the related parties, disclosure policy and professional code of conduct for both directors and employees. The Bank has also developed various policies and procedures to maintain effective practices for compliance risk management and to build and maintain strong compliance culture.

Non-compliance of Corporate Governance and Penalties

The Bank has complied with all regulatory requirements except for few instances during the last three years. The Bank has taken necessary corrective action to ensure compliance in the future. The total penalties incurred during the past three years is RO 58,000 for non-compliance with the CBO regulations relating to classification, credit restructuring and deferment scheme.

9. Communication with Shareholders, Regulators and Wider Market

The Bank is committed to provide all shareholders comprehensive and equal access to information about the Bank's activities, and to fulfil our continuous disclosure obligations to the Central Bank of Oman and Capital market Authority.

The Bank's website www.oman-arabbank.com includes annual reports, quarterly financial statements, briefings and presentations given by the CEO and other executives, public announcements and economic updates.

We confirm the following:

- Availability and accessibility of quarterly results to the shareholders.
- Quarterly results and the annual report are posted on the Bank website www.oman-arabbank.com.
- The website displays all official Bank information releases.
- Management Discussion and Analysis (MD&A) forms part of the annual report.

10. Dividend Policy

The Bank's Dividend Policy complies with CBO's guidance and adopted to:

- Establish provisions that support the Bank's financial position.
- Pay cash dividends to the shareholders appropriate to their investment.
- Retain sufficient provisions that support the future growth of the Bank operations and strengthen its position in case of any unexpected crisis.
- Strike a balance between the retention of some earnings appropriate to the economic conditions and the understandable desire of shareholders for immediate and high returns.

11. Market Price Data

On 6 July 2020, Oman Arab Bank SAOC became a listed Bank and the name was changed from Oman Arab Bank SAOC to Oman Arab Bank SAOG. Consequently, the ordinary equity shares of the Oman Arab Bank SAOG were listed on Muscat Securities Market (MSM).

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

Sr. No.	Shareholder	Percentage of ownership
1	Arab Bank PLC - Jordan	49.00%
2	Oman International Development and Investment Company (OMINVEST)	31.63%

Arab Bank Plc is a publicly held company and listed on the Amman Stock Exchange, Jordan and OMINVEST is a public joint stock company listed on the Muscat Securities Market. The General public holds the remaining 19.37%.

The high/low share price information of the Bank during the financial year ended 31 December 2021 and Muscat Securities Market Financial Index movement is as follows:

Oman Arab Bank Share Price

Month	High	Low	Close
Jan-21	0.150	0.150	0.150
Feb-21	0.153	0.152	0.152
March-21	0.150	0.150	0.150
April- 21	0.150	0.150	0.150
May-21	0.152	0.152	0.152
June-21	0.186	0.185	0.186
Jul-21	0.185	0.185	0.185
Aug-21	0.185	0.185	0.185
Sep-21	0.185	0.185	0.185
Oct-21	0.168	0.165	0.166
Nov-21	0.161	0.161	0.161
Dec-21	0.160	0.160	0.160

Financial Index movement

Month	High	Low
Jan-21	5532.58	5462.25
Feb-21	5431.97	5408.25
March-21	5702.91	5671.29
April- 21	5826.87	5799.32
May -21	5979.85	5933.97
June -21	6494.99	6465.09
Jul-21	6470.90	6445.91
Aug-21	6323.31	6315.14
Sep-21	6242.58	6204.37
Oct-21	6427.25	6399.55
Nov-21	6546.00	6371.89
Dec-21	6618.50	6577.92

12. Perpetual Tier 1 Capital Bonds

The Bank successfully issued USD 250 million Additional Tier-1 Perpetual Bonds, listed on the International Securities Market (ISM) the bonds were listed in LSE on 7 June 2021 (See Page 47). This is the first issue of its kind for OAB in foreign currency and is also the first international issuance of public AT1 (Additional tier-1 bonds) in the last 3 years from Oman.

13. Profile of the Statutory Auditors

The shareholders of the Bank appointed KPMG as its auditors for 2021. KPMG LLC in Oman was established in 1973 and is part of KPMG Lower Gulf Limited. KPMG in Oman employs more than 150 people, among whom are five partners and seven directors, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. It operates in 145 countries and territories and has 236,000 people working in member firms around the world. KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms.

Audit fees

The professional fees paid or payable to KPMG for the financial year 2021 is OMR RO 108,600 for their audit and related services.

14. Other Matters

The last Annual General Meeting was held on 28th March 2021. The meeting was conducted as per statutory requirements and attended by the Chairman, Mr. Rashad Muhammed Al Zubair and all other members of the Board of Directors Except Mr. Abdul Aziz Al Balushi.

15. Acknowledgment by the Board

The Board of Directors acknowledges its responsibilities and confirms that:

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

ii. The Bank has adequate internal controls and procedures which are reviewed regularly through internal audit and overseen by the Audit Committee of the Board.

iii. There are no material matters that could possibly affect the continuation of the Bank's ability to continue its operations during the next twelve months.

Rashad Al Zubair
Chairman

CB Ganesh
Acting Chief Executive Officer

ANNUAL REPORT 2021

Management Discussion & Analysis

Management Discussion & Analysis

Oman Arab Bank at a Glance

Oman Arab Bank was established in 1984 following the acquisition of Arab Bank's branches in the Sultanate of Oman (Arab Bank had been operating in Oman since 1973). In 1992, we expanded our operations with the acquisition of all Omani European Bank's retail branches. In 2020, we acquired Alizz Islamic Bank (AIB) merging our Islamic banking window with Alizz Islamic Bank, and Oman Arab Bank became a public joint-stock company (SAOG), with shares listed in the Muscat Securities Market. Oman Arab Bank SAOG (the Bank) is a subsidiary of Arab Bank, one of the largest global Arab banking networks with operations spanning five continents. The Bank is owned by Arab Bank (49.00%), Oman International Development and Investment Company SAOG (31.63%) and other individual and corporate investors (19.37%). This analysis will cover OAB and its subsidiary AIB.

Operating Environment

Higher oil prices since 2020 lead to a significant easing of government liquidity and external financing pressures in 2021. The Government continued its implementation of the Medium-Term Fiscal Plan, which together with the high oil prices, is expected to improve the government's debt levels. This has been evident through the improvement of the budget deficit, which is estimated to be 3.8% of the gross domestic product (GDP) in 2021 as compared to the significant deficit of 19.3% in 2020.

On the other hand, the banking sector's profitability remains under stress mainly due to the low-interest-rate environment and the high cost of deposits. The sector is also being challenged by rising non-performing loans. Local banks continue to play an important role in the country's financial system with government deposits and shareholdings remaining at significant levels in several banks.

Financial Performance Analysis

The comparable figures for the consolidated income statement reflect the results of the standalone parent company (including six months of its Islamic window) and six months of Alizz Islamic Bank results.

Despite the economic challenges of 2021, the Bank's operating income increased by 19% from OMR 101.9 million in 2020 to OMR 121.6 million in 2021. On the other hand, net profit declined from OMR 14.2 million in 2020 to OMR 7.1 million in 2021 due to the prudent approach taken by the management towards building adequate provisions against customer credit facilities. Considering the prevailing economic conditions, the Board of directors did not distribute dividends for the year ended 31 December 2021. The financial results are further analysed as follows:

Net interest income and income from Islamic Financing increased by 10.5% to OMR 89.5 million driven by strong growth from our Islamic operations. This was partially offset by the increased cost of conventional customer deposits..

Net fee and commission income was OMR 17.2 million in 2021 compared to OMR 15.5 million in 2020 with the increase driven by a healthy growth in our transactional banking fees, both on the conventional and Islamic side.

Other operating income and net income from investment securities grew from OMR 5.4 million in 2020 to OMR 14.8 million in 2021 owing mainly to the receipt of OMR 5.9 million from the insurance claim related to the fraud incident that took place in 2020. OMR 3.1 million gained on sale of investments.

Operating expenses increased from OMR 65.4 million in 2020 to OMR 78.5 million in 2021 due to the consolidation of twelve months of AIB in 2021 compared to six months in 2020.

Net allowances for credit losses amounted to OMR 35.2 million in 2021 compared to OMR 18.6 million in 2020. The increase was driven by higher provisions of OMR 13.5 million in the corporate banking segment and OMR 2.3 million in Islamic banking.

Net loans and financing to customers grew by 4.1% (OMR 108 million) to reach OMR 2,753 million as of 31 December 2021, supported by a growth of OMR 84 million and OMR 24 million in our Islamic and conventional banking segments respectively.

Customer deposits increased from OMR 2,755 million in 2020 to OMR 2,810 million in 2021 due to a strong growth in Islamic deposits.

The total capital position improved significantly through the issuance of USD 250 million Additional Tier 1 Perpetual Bonds in 2021. **The capital adequacy ratio** increased from 15.42% at the end of 2020 to 17.75% as of 31 December 2021.

Corporate Banking

We offer a range of corporate financial solutions to small and medium enterprises, large corporates, Government entities and Semi Government entities including project financing, payments and cash management solutions, term deposits, working capital finance, terms loans contracts and equipment finance, and other trade products.

We constantly strive to enhance our customers' banking experience by offering our banking services through various digital channels so that they can manage their finances on-the-go, anytime, anywhere.

Retail Banking

Overview:

– We are committed to delivering an easier, simpler and consistently superior customer experience across all our customer touch points, with a strong focus on developing a consolidated market position despite the challenging macroeconomic environment.

– We provide services to individuals under our Elite, Advantage and Youth Propositions as well as for customers who have day-to-day banking needs.

– In 2021, we launched a new proposition for the upper mass segment 'Advantage', which offers a unique set of features such as cashback on debit card spends and higher returns on savings.

– We continue to invest in transforming our delivery channels to achieve higher efficiencies and provide customers with a richer, more convenient experience.

– These investments and developments have resulted in an unprecedented increase in transaction volumes on the OAB mobile banking app and internet banking platform. We expect to continue to see an increase in adoption rates in 2022 and internet banking. As of Dec 31, 2021, 50 branches operating in Oman, over 150 Automatic Teller Machines (ATMs). Now live across the Sultanate, OAB customers with **NFC enabled cards** can simply 'Tap' their Debit Card on any OAB ATM sensor to complete a faster, hygienic and more secure transaction.

– Products: Hasaad Savings Account, Child Education Saving Plan, Growth Account, Fixed Deposit Account, Hasaad Savers, Youth Account.

– The Bank also offers Shari'a-based current accounts, savings accounts and time deposits through Alizz Islamic Bank.

Merchant Services and Corporate payment Cards

Services offered: POS cards acquiring and e-Payment gateway.

Corporate Cards: Visa Tejarti prepaid card for secure government payments and MasterCard corporate credit card for company employees, hassle-free process.

OAB is one of the largest acquirers of Visa and Master Cards in Oman with state-of-the-art POS terminals deployed across the Sultanate. We offer both traditional ADSL and the latest android wireless GSM/4G internet-based point of sales machines at competitive discount rates.

Bancassurance

The Bank has an exclusive tie-up with National Life & General Insurance Company to offer the following insurance policies as an agent: Motor Insurance, Health Insurance, Travel Insurance, Home Contents Insurance, and Comprehensive Personal Insurance.

Treasury

We offer our customers a wide range of treasury products and solutions while protecting them against unforeseen risks in the treasury business, through a specialised and highly experienced team, supported by our strategic partner Arab Bank Plc.

We have an active dealing room that works to serve the needs of the customer and provide them with global treasury solutions such as.

Foreign Exchange

We cater to all foreign exchange requirements. Clients with currencies exposure can benefit from expert advice, competitive pricing, forward swaps and treasury. The Bank also monitors clients' large currency orders around the clock.

Money Markets

We offer a wide range of deposit products on local currency and all other major currencies for various tenures. Also on offer are an array of interest rate hedging solutions.

Derivative and hedging solutions

We offer various Derivative products to help clients manage risk arising on account of volatility in foreign currency as well as interest rates risk. Our robust systems and experienced team provides competitive pricing and quick turnaround for deal execution. Product offerings include Vanilla Currency Options and Interest Rate Swaps.

Alizz Islamic Banking at a Glance

Alizz Islamic Bank SAOC was incorporated in Oman, as a public joint stock company to carry out banking activities in accordance with the principles of Islamic Shari'a. The Central Bank of Oman "CBO" issued an Islamic banking license to the Bank on the 5th of September, 2013 and the Bank commenced its operations on the 30th of September 2013. On the 30th of June 2020, Oman Arab Bank SAOG acquired Alizz Islamic Bank's shares becoming the subsidiary of the Parent Company. Following the acquisition, Alizz Islamic Bank's shares were de-listed from the Muscat Securities Market "MSM".

The Bank has established its Enterprise Risk Management "ERM" framework in accordance with the requirements of Basel accord and Islamic Banking Regulatory Framework issued by the Central Bank of Oman "CBO".

Basel II Pillar III disclosures include qualitative and quantitative information about the Bank's ERM framework, Shari'a governance and capital adequacy. Certain corresponding figures have been re-classified in order to conform to the presentation for the current year. Such re-classification does not affect previously reported losses or owners' equity.

Management Discussion & Analysis

Overview

- Following the acquisition of Alizz Islamic Bank by OAB, Al Yusr (formerly OAB's Islamic banking window) was integrated with Alizz Islamic Bank. The Bank's Islamic Banking Operations, financial services and products are all Shari'a compliant.
- Alizz Islamic Bank aims to be the leader in the provision of Islamic financing solutions in Oman, providing corporate and retail banking solutions to its customer base.
- Alizz Islamic Bank has its own Board of Directors, independent Sharia Supervisory Board, separate business infrastructure, employees and systems.
- Alizz Islamic Bank provides Islamic banking products for both Corporate and Retail customers.
- Separate Shari'a Supervisory Board reviews activities, provides necessary guidance, monitors compliance with Islamic Principles, and approves all Islamic banking products prior to their launch.
- Separate Islamic Risk Management, Compliance, Asset and Liability Committees to review the Bank's Islamic banking activities.

Products and Services Offered

Alizz Islamic Bank offers various financial products based on:

- Murabaha
- Ijarah
- Mudaraba
- Musharaka
- Diminishing Musharakah
- Wakala
- Takaful Insurance solution
- Islamic Banking Assets stood at OMR 974 mn in 2021 compared to OMR 866 mn in 2020.
- Gross (financing) Loans - Islamic Banking amounted to OMR 829 mn in 2021 compared to OMR 739 mn in 2020.
- Gross Financing stood atOMR 829 mn in 2021 compared to OMR 739 mn in 2020.

Operations

We have made good progress on the automation and centralisation of processes throughout the year. We have also reviewed and enhanced Service Level Agreements and Turnaround Times to deliver a superior customer experience across all customer touchpoints. Automating and centralising its processes during the year. The One of our key priorities was to strengthen the control environment by reviewing bank-wide policies, procedures and introducing desktop procedures. Control items related to transaction-level reconciliation, account ownership, and vendor management have been automated leading to tighter vigilance and monitoring of internal controls. We have also maintained a stringent cost optimisation approach across the organisation by measuring and monitoring staff productivity, cost per transaction for all processes, and enhancing the procurement process.

To support these strategic objectives, we have also streamlined the project implementation process and centralised it into a single unit. This has helped fast track the development process and reduced costs significantly. We are also working on key regulatory projects including RTGS Upgrade, GCC RTGS, BUNA implementation, IBAN Implementation, and ITRS reporting.

Human Resources

We have integrated multiple training programs that focus on building an “Agile” institution that can adapt to rapidly changing environments. In streamlining workflows across the company, we have created a dynamic culture that fosters creative, innovative thinking. We are also implementing upskilling programmes for employees to provide long-term learning and career growth within the bank. To ensure the safety of employees, we continued to allow staff to work remotely according to the Supreme Committee directives. In parallel, Alizz Islamic Bank recruits talented and ambitious Omani nationals and provides appropriate training in Islamic Banking and other programmes to prepare employees for future leadership roles, in line with Oman Vision 2040.

COVID-19 vaccination campaign for the Bank’s employees and their families In line with our commitment to safeguard the health and safety of our employees, we rolled out an internal vaccination campaign. In 2021, OAB and Alizz Islamic Bank, in coordination with the Ministry of Health, provided vaccines to the Bank’s employees and their family members above 12 years of age. This initiative was well received by employees and their families.

Compliance

We are committed to adhering with the laws and regulations issued by the Central Bank of Oman, the Capital Market Authority and other Government authorities. To fulfil our commitments, we have created an independent compliance department that reports to the board. The Compliance Division advises the board, management and staff on managing compliance risks and fostering a sound compliance culture across the Bank. It proactively identifies, assesses, monitors and reports the Bank's compliance risks. Furthermore, we are committed to combating money laundering and terrorism financing. In this regard, it has taken adequate and effective measures to ensure that our products and services are not misused for the purpose of money laundering and terrorism financing. We are also committed to ensuring adherence with the local and international sanctions imposed on individuals, entities and countries. To carry out our responsibilities effectively and efficiently, the Division is manned with qualified resources and equipped with robust systems.

Business Continuity Planning (BCP)

On the 1st of October 2021, the National Multi-Hazard Early Warning Centre issued the first alert through the ‘Civil Aviation Authority’ on the formation of a tropical cyclone (Shaheen). The business continuity processes were activated as a preliminary precautionary measure in the head office and throughout all the Bank’s branches. The Crisis Management Committee (CMC) developed different measures to combat the impact of the storm. The committee had multiple meetings to evaluate the implementation of safety measures.

Below are the various actions that were taken:

- Contacted staff through different channels to instruct them about the necessary safety measures that need to be adopted.
- Provided temporary accommodation for affected employees and their families.
- Provided financial support to affected employees.
- Three months of retail loan deferment to customers in areas severely impacted by Cyclone Shaheen.
- The Bank prioritised actions for the branches and locations of the ATMs.
- Oman Arab Bank and Alizz Islamic Bank allocated funds for relief measures.
- Supported affected families from North and South Al Batinah by donating furniture and basic household necessities.

Sustainability at OAB

The Bank issued its first GRI-certified sustainability report aligned with the United Nations sustainable development goals and Oman Vision 2040. OAB is only the third Bank in the Sultanate to achieve this distinction. The report highlights the Bank's achievements with regards to Environment, Social and Governance related matters in a detailed quantitative manner.

We started 2021 by collaborating with 12 talented Omani photographers to produce the Bank’s first eco-friendly desk calendar made entirely of recycled paper and vegetable ink. The initiative managed to provide great exposure for these young talents through a dedicated social media campaign. Throughout the year, we also lead several awareness campaigns on environmental responsibility highlighting the different native flora and fauna at risk in Oman and tips on how to lead a more eco-friendly life. The Bank also sponsored The Environment Society of Oman’s virtual fundraiser for the second consecutive year. At Oman Arab Bank, we believe in the availability and equality of opportunities to access financial services and that is why financial inclusion is one of our sustainability pillars. It is not enough to provide access to these products and services, we also need to educate and advise the public to make sure that they make use of these opportunities. It is for this reason that we held a financial management workshop for members of the Omani Women's Association. We also partnered with the Oman Banks Association for a financial inclusion campaign that ran from the end of April to mid-May. We also created our own social media content explaining what financial inclusion is to the uninitiated. Oman Arab Bank has had a strong relationship with several non-profit organisations over the years and 2021 was no different. We're reaffirmed our relationship with our charity partners in 2021. All our partners can be found and donated to through our OAB app. During Ramadan, we also ran an awareness campaign with our partners and set up competitions with all proceeds being donated to the charities. Throughout the year we collaborated with several other private and public entities on initiatives such as: supporting students financially with their studies and providing medical equipment to those in need, just to name a few.

Due to climate change, Oman saw several natural disasters in 2021 such as the flooding in Sur and then North Batinah, followed by Cyclone Shaheen. For Sur and North Batinah, we donated to the Ministry of Social Development to ensure that the aid reached those who needed it most. We also provided the Ministry with a list of some SMEs from the affected areas that specialised in construction, so they too can benefit. For Cyclone Shaheen, Oman Arab Bank and Alizz Islamic Bank allocated OMR 300,000 as relief for those in need.

ANNUAL REPORT 2021

Auditor's Report on BASEL II - PILLAR III and BASEL III framework

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Agreed-Upon Procedures Report on Oman Arab Bank SAOG's Basel II - Pillar III & Basel III Disclosures

To the Board of Directors of Oman Arab Bank SAOG ("the Bank")

Purpose of this Agreed-Upon Procedures Report and Restriction on Use

Our report is solely for the purpose of assisting Oman Arab Bank SAOG ("the Bank") in connection with the Bank's compliance with the disclosure requirements set out in the Central Bank of Oman's ("the CBO") Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1114 dated 17 November 2013 and Circular No. 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018 and letter BSD/CB/2020/05 dated 3 June 2020. and may not be suitable for another purpose. This report is intended solely for the Bank and the CBO and should not be used by any other parties.

Responsibilities of the Bank

The Bank has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

The Bank (also the Responsible Party) is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioners' Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves us performing the procedures that have been agreed with the Bank, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Practitioners' Responsibilities (continued)

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the relevant ethical requirements including independence requirements of International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) issued by the International Ethical Standards Board for Accountants.

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Bank in the terms of engagement letter dated 28 February 2022, on the Bank's Basel II and III – Pillar III Disclosures:

S. No	Procedures	Findings
1	We have performed the procedures prescribed in the CBO Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III related disclosures of the Bank as at and for the year ended 31 December 2021.	No exceptions noted.

This report relates only to the items specified above and does not extend to the Bank's financial statements taken as a whole.

KPMG

KPMG LLC
13 March 2022

KPMG
KPMG LLC
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Sultanate of Oman
CR.No: 1358131

Enclosures:
Oman Arab Bank SAOG's Basel II and III – Pillar III Disclosures

ANNUAL REPORT 2021

BASEL II - PILLAR III AND BASEL III related disclosures

BASEL II - PILLAR III AND BASEL III related disclosures

A. SCOPE OF APPLICATION

Oman Arab Bank SAOG (the Parent Company) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company (SAOC). On 6 July 2020, Oman Arab Bank SAOC acquired Al Izz Islamic Bank SAOC (AIB) and become an open joint stock company (SAOG) and was listed on the Muscat Stock Exchange (MSX). The Parent Company is principally engaged in commercial and investment banking activities through a network of branches in the Sultanate of Oman. The registered head office of the bank is North Al Ghoubra, P.O. Box 2240, Al-Udhayabah, Postal Code 130, Muscat, Sultanate of Oman. The Parent Company was a subsidiary of Oman International Development and Investment Company SAOG up to 29 June 2020. On 30 June 2020, Oman Arab Bank SAOG became a subsidiary of Arab Bank PLC, an entity listed in Jordan, and holds 49% shareholding in the Parent Company.

The consolidated financial statements for the year ended 31 December 2021 comprises of the results of the Parent Company and Al Izz Islamic Bank SAOC (AIB) (the Subsidiary). Comparative consolidated financial statements includes 6 months results of AIB i.e. from 1 July to 31 December 2020 as date of control transferred being 30 June 2020 and 6 months results of Al Yusr (previously Islamic window of the Parent Company).

The Bank's objectives of capital management are:

- to comply with the capital requirements set by the regulator i.e. the Central Bank of Oman(CBO) ;
- to safeguard the Bank's ability to continue as a going concern while providing adequate returns to the shareholders; and
- to maintain a strong capital base to support the development of its business.

The Bank complies with CBO's requirements for the capital adequacy as specified in the Circular provided for the implementation of the Basel II accord.

Basel II Accord consists of three mutually reinforcing Pillars - Minimum Capital Requirements (First Pillar), Supervisory Review Process (Second Pillar) and Market Discipline (Third Pillar). Under the First Pillar, the new framework offers three distinct options, for computing capital requirements for credit and operational risks, respectively. The approaches for credit risk (Standardized, Internal Ratings-Based –Foundation and Advanced) and operational risk (Basic Indicator, Standardized and Advanced measurement) are based on increasing risk sensitivity and allow banks to choose any of the approaches that are most appropriate to their risk management practices.

B. CAPITAL STRUCTURE

The Bank's Tier 1 and Tier 2 capital are as follows

	2021 Consolidated OMR '000	2021 Parent Company OMR '000
Paid up share capital	166,941	166,941
Share premium	36,565	36,565
Legal reserve	46,921	46,482
General reserve	25,560	25,560
Special reserve	2,400	2,400
Subordinated Debt reserve	-	-
Other disclosed reserves	(1,030)	(1,030)
Other intangibles	(4,780)	-
Retained earnings	67,663	64,343
Intangibles	(7,210)	
Perpetual Bonds	168,803	168,803
Less allocated to Subsidiary	-	(107,144)
Less Investment in Capital instruments	(5,000)	(5,000)
Tier 1 Capital	**496,833**	**397,920**
Eligible expected credit loss on loans & advances and financing to customers	29,437	24,502
Investment revaluation reserve (45% only)	6	6
Tier 2 Capital	**29,443**	**24,508**
Total Capital	**526,276**	**422,428**

Tier 1 Capital

The Bank's authorised share capital is RO 200,000,000 and issued share capital comprises 1,669,410,000 fully paid shares of RO 0.100 each. In accordance with Article 132 of the Omani Commercial Companies Law of 2019, the Bank is required to transfer 10% of its profit after tax for the year to the legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. General reserves have been created out of the Bank's retained earnings to meet any unforeseen contingency. The subordinated debt reserve had been created by a transfer of 20% of the subordinated bonds out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated bonds which are due to mature within five years. Upon repayment of the subordinated debt in 2021, the reserve has been transferred to retained earnings during the year.

Additional Tier 1 Capital

- On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and Central Bank of Oman regulation.
- On 17 October 2018, the Bank issued another series of unsecured perpetual Tier 1 bonds of RO 42.5 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds are in pari-passu with earlier issue.
- On 7 June 2021, the Bank issued unsecured perpetual Tier 1 bonds of USD 250 million (2,500,000 units of USD 100 each equivalent to RO 96.25 million through private placement). The bonds are listed in the International Securities Market (ISM) of London Stock Exchange and are transferable through trading. The bonds carry a fixed coupon rate of 7.625% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and Central Bank of Oman regulation.

The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion. The Bond under note (a) has First Call Date on 29 January 2022, bond under note (b) has First Call date on 17 October 2023 and bond under note (c) has First Call date on 4 June 2026 or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

Tier 2 Capital

Tier 2 Capital consists eligible Expected Credit Loss (ECL) on loans, advances and financing to customers as required by the CBO and cumulative fair value gains on eligible investments securities as allowed under the guidelines for Basel II by CBO.

The eligible ECL is made for the loan impairment on the performing portion of the loans, advances and financing to customers against the losses incurred but not identified.

C. CAPITAL ADEQUACY

Qualitative disclosures

Basel II provides a range of options for determining the regulatory capital requirements for credit and operational risks. It allows the banks and the supervisors to select approaches that seem most appropriate for the level of sophistication of the banks' activities, financial market infrastructure and risk management practices.

The Bank has chosen the following approaches for determining the regulatory capital with the approval of Central Bank of Oman:

- Standardized Approach for the credit risk with a simplified approach for the risk weighting of collaterals under the credit risk mitigation and
- Basic Indicator approach for the operational risk.

The Bank's Board of Directors reviews the capital requirements based on the strategic plan of the Bank. This is reviewed periodically based on the current market and economic conditions. While formulating the Bank's strategic plans, the Bank's management takes into account forward-looking factors such as changes in the economic conditions, market and liquidity conditions. The Bank's current and future capital requirements are calculated in relation to its strategic business objectives. The strategic plan delineates the Bank's short-term and long-term capital needs, capital expenditures required for the foreseeable future, target capital levels, and capital sources. The Bank prepares its capital planning and operational budgeting on an annual basis.

Management considers that the Bank has adequate systems for monitoring and reporting risk exposures. The capital needs are assessed based on changes in the Bank's risk profile. The Board of Directors and the senior management receive regular reports or updates on the Bank's risk profile and capital needs through the Assets and Liabilities Committee (ALCO), Management Credit Committee (MCC) and directly from the Risk Management Department. This information is used to:

- evaluate the level and trend of material risks and their effect on capital requirements;
- evaluate the sensitivity and reasonableness of the main assumptions used in the capital measurement system;
- determine that the Bank holds sufficient capital against various risks;
- determine that the Bank meets its internal capital adequacy goals; and
- assess its future capital requirements based on the Bank's reported risk profile and in turn make necessary adjustments to the Bank's strategic plan.

Quantitative disclosure

Table-1 : Position of Risk weighted Assets and detail of Capital Adequacy is presented as under

2021 Consolidated

Sl. No	Details	Gross Balance (Book value) OMR '000	Net Balance (Book value) OMR '000	Risk Weighted Assets OMR '000
1	On -Balance sheet Item	3,543,798	3,412,157	2,538,467
2	Off -Balance sheet Item	407,923	197,648	170,498
3	Derivatives	236,322	13,673	9,956
	Assets for Operations risk			207,336
	Assets in Trading book			39,376
4	**Total**	**4,188,043**	**3,623,478**	**2,965,633**
5	Tier 1 Capital			496,833
6	Tier 2 Capital			29,443
7	Tier 3 Capital			-
8	Total Regulatory Capital			**526,276**
8.1	Capital requirement for credit risk			333,048
8.2	Capital requirement for market risk			4,824
8.3	Capital requirement for operational risk			25,339
9	**Total required capital**			**363,271**
10	**Tier 1 Ratio**			**16.75%**
11	**Total Capital Ratio**			**17.75%**

2021 Parent Company

Sl. No	Details	Gross Balance (Book value) OMR '000	Net Balance (Book value) OMR '000	Risk Weighted Assets OMR '000
1	On -Balance sheet Item	2,560,571	2,428,930	1,927,823
2	Off -Balance sheet Item	360,447	164,760	143,172
3	Derivatives	236,332	13,673	9,956
	Assets for Operations risk			166,650
	Assets in Trading book			13,188
4	**Total**	**3,157,340**	**2,607,363**	**2,260,789**
5	Tier 1 Capital			397,920
6	Tier 2 Capital			24,508
7	Tier 3 Capital			-
8	Total Regulatory Capital			**422,428**
8.1	Capital requirement for credit risk			254,916
8.2	Capital requirement for market risk			1,616
8.3	Capital requirement for operational risk			20,415
9	**Total required capital**			**276,947**
10	**Tier 1 Ratio**			**17.60%**
11	**Total Capital Ratio**			**18.68%**

D. CREDIT RISK EXPOSURE AND ASSESSMENT

i. General disclosure

Qualitative disclosures

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities, investment activities and other assets in the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees.

Credit risk is one of the most significant risks for the Bank. The Bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman. Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The credit risk management and control are centralised in the credit risk management and credit review teams which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Review Department while the Retail Banking Department manages the credit risk with predefined programs. The Credit Review Department reviews the credit risk independently and directly reports to the Compliance and Risk Management Committee of the Board of Directors. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators, expert credit assessment, guidelines issued by CBO and inclusion of forward-looking information. Besides assessing the qualitative characteristics, the Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004. 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 1st January 2018.

In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

The Bank considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the Bank to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

Given the nature of the bank's exposures and availability of historical statistically reliable information, the bank derives the Through the Cycle (TTC) probability of default (PD) using internal historical experience. The Bank links TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The methodology takes into consideration forward looking economic forecasts under three scenarios (base case, bad case, and good case), historical economic data, the asset correlation of each rating category, and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data.

Credit Risk Management and Control

The Bank monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a certain rating scale. The internal credit rating is a measure of the creditworthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The Bank manages, limits and controls concentrations of credit risk – in particular, to individual counterparties and groups, and to industries, sectors and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee, Compliance and Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering

BASEL II - PILLAR III AND BASEL III related disclosures

on- and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

a) Collateral

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

- charges over business assets such as premises, inventory and accounts receivable
- lien on fixed deposits
- cash margins
- mortgages over residential and commercial properties
- pledge of marketable shares and securities

Long-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are generally unsecured. Additionally, in order to minimise the credit loss the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

b) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The relationship managers remain in close contact with the borrowers. The Bank assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Credit Review Department.

c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments

Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

PD assessments are estimates at a certain date, and are calculated using the banks internal default data.

The PIT PD estimates are converted to cumulative PIT PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs. The lifetime PDs are calculated by compounding the 12-month PIT PDs.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Bank calculates PIT PD estimates under three scenarios, a base case, bad case and good case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario.

BASEL II - PILLAR III AND BASEL III related disclosures

Quantitative disclosure

ii. Gross credit risk exposures

Table-2

Sl.No	Type of credit exposure	Average Gross Exposure		Total Gross Exposure as at	
		2021 Consolidated	2021 Parent Company	2021 Consolidated	2021 Parent Company
		OMR '000	OMR '000	OMR '000	OMR '000
1	Overdrafts	146,664	146,664	137,630	137,630
2	Personal Loans	1,070,332	727,994	1,087,264	735,944
3	Loans against Trust Receipts	84,858	84,858	87,018	87,018
4	Other Loans	1,497,959	1,025,380	1,540,291	1,062,228
5	Bills Purchased Discounted	47,269	47,269	42,253	42,253
	Total	**2,847,082**	**2,032,165**	**2,894,456**	**2,065,073**

iii. Geographic distribution of exposures

Table-3

2021 Consolidated

Sl. No	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
1	Overdrafts	137,630	-	-	-	-	-	137,630
2	Personal Loans	1,087,264	-	-	-	-	-	1,087,264
3	Loans against Trust Receipts	87,018	-	-	-	-	-	87,018
4	Other Loans	1,540,291	-	-	-	-	-	1,540,291
5	Bills Purchased/ Discounted	42,253	-	-	-	-	-	42,253
	Total	**2,894,456**	**-**	**-**	**-**	**-**	**-**	**2,894,456**

2021 Parent company

Sl. No	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
1	Overdrafts	137,630	-	-	-	-	-	137,630
2	Personal Loans	735,944	-	-	-	-	-	735,944
3	Loans against Trust Receipts	87,018	-	-	-	-	-	87,018
4	Other Loans	1,062,228	-	-	-	-	-	1,062,228
5	Bills Purchased/ Discounted	42,253	-	-	-	-	-	42,253
	Total	**2,065,073**	**-**	**-**	**-**	**-**	**-**	**2,065,073**

iv. Industry or counterparty type distribution of exposures

Table-4
2021 Consolidated

Sl. No	Economic Sector	Overdraft OMR '000	Loans OMR '000	Bills Purchased/ discounted OMR '000	Others OMR '000	Total OMR '000	Off-balance sheet exposure OMR '000
1	Import Trade	9,407	80,194	645	7,656	97,902	31,751
2	Export Trade	389	36	-	480	905	51,423
3	Wholesale & Retail Trade	9,830	93,510	121	12,107	115,568	4,814
4	Mining & Quarrying	20,287	115,021	17	9,179	144,504	1,316
5	Construction	37,953	159,297	35,709	34,788	267,747	11,313
6	Manufacturing	22,059	214,944	2,036	46,919	285,958	2,078
7	Electricity, gas & water	868	42,481	2,120	8,972	54,441	201,132
8	Transport & communication	1,944	109,988	229	3,148	115,309	1,137
9	Financial Institutions	2,020	103,913	-	2,400	108,333	-
10	Services	14,030	193,925	912	96,774	305,641	23,443
11	Personal Loans	-	797,750	-	289,514	1,087,264	1,048
12	Agriculture & Allied Activites	522	7,526	207	9,570	17,825	260
13	Government	-	-	-	1,074	1,075	33,782
14	Non-Resident Lending	-	1,160	-	-	1,160	-
15	All Others	18,321	213,255	257	58,992	290,824	87,686
16	**Total (1 to 15)**	**137,630**	**2,133,000**	**42,253**	**581,573**	**2,894,456**	**451,183**

2021 Parent Company

Sl. No	Economic Sector	Overdraft OMR '000	Loans OMR '000	Bills Purchased/ discounted OMR '000	Others OMR '000	Total OMR '000	Off-balance sheet exposure OMR '000
1	Import Trade	9,407	69,447	645	-	79,499	31,742
2	Export Trade	389	36		-	425	51,423
3	Wholesale & Retail Trade	9,830	61,649	121	-	71,600	2,653
4	Mining & Quarrying	20,287	113,936	17	-	134,240	127
5	Construction	37,953	153,597	35,709	-	227,259	7,636
6	Manufacturing	22,059	168,727	2,036	-	192,822	13
7	Electricity, gas & water	868	42,098	2,120	-	45,086	197,585
8	Transport & communication	1,944	104,531	229	-	106,704	-
9	Financial Institutions	2,020	92,914	-	-	94,934	-
10	Services	14,030	151,997	912	-	166,939	19,959
11	Personal Loans	-	735,944	-	-	735,944	-
12	Agriculture & Allied Activites	522	6,346	207	-	7,075	-
13	Government	-	-	-	-	1	33,782
14	Non-Resident Lending	-	1,160	-	-	1,160	-
15	All Others	18,321	182,808	257	-	201,385	-
16	**Total (1 to 15)**	**137,630**	**1,885,190**	**42,253**	**-**	**2,065,073**	**344,920**

v. Residual contractual maturity of credit exposure

Table-5
2021 Consolidated

Sl. No	Economic Sector	Overdraft OMR '000	Loans OMR '000	Bills Purchased/ discounted OMR '000	Others OMR '000	Total OMR '000	Off-balance sheet exposure OMR '000
1	Up to 1 month	11,010	238,686	38,230	49,092	337,018	115,316
2	1-3 months	11,010	97,934	2,350	28,628	139,922	178,623
3	3-6 months	11,010	64,843	580	34,354	110,787	51,709
4	6-9 months	11,010	24,483	-	17,177	52,670	25,977
5	9-12 months	11,010	74,310	1,093	17,177	103,590	51,439
6	1-3 years	27,526	312,545	-	120,238	460,309	21,064
7	3-5 years	27,526	330,677	-	91,610	449,813	3,767
8	Over 5 years	27,528	989,523	-	223,297	1,240,348	3,288
9	**Total**	**137,630**	**2,133,001**	**42,253**	**581,573**	**2,894,457**	**451,183**

2021 Parent Company

Sl. No	Economic Sector	Overdraft OMR '000	Loans OMR '000	Bills Purchased/ discounted OMR '000	Others OMR '000	Total OMR '000	Off-balance sheet exposure OMR '000
1	Up to 1 month	11,010	221,339	38,230	-	270,579	107,878
2	1-3 months	11,010	85,543	2,350	-	98,903	137,180
3	3-6 months	11,010	49,974	580	-	61,564	29,394
4	6-9 months	11,010	17,049	-	-	28,059	19,601
5	9-12 months	11,010	66,876	1,093	-	78,979	34,437
6	1-3 years	27,526	260,505	-	-	288,031	15,751
7	3-5 years	27,526	291,027	-	-	318,553	579
8	Over 5 years	27,528	892,878	-	-	920,406	100
9	**Total**	**137,630**	**1,885,191**	**42,253**	**-**	**2,065,074**	**344,920**

vi. Loans and provisions by major industry or counterparty type

Table-6

2021 Consolidated

Sl. NO	Economic Sector	Gross Loans	Of which Stage 3 loans	ECL held for Stage 1 & 2	ECL held for Stage 3	Stage 3 ECL Provided during the year *	Advances written off during the year
		OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
1	Import Trade	97,902	31,979	1,294	20,401	8,580	-
2	Export Trade	905	36	-	4	2	-
3	Wholesale & retail trade	115,568	7,899	1,703	5,738	898	-
4	Mining & quarrying	144,504	685	2,476	115	4	-
5	Construction	267,747	39,733	5,732	28,213	12,525	-
6	Manufacturing	285,958	14,630	5,393	8,784	1,912	-
7	Electricity, gas & water	54,441	29	170	9	1	214
8	Transport & communication	115,309	890	632	564	199	-
9	Financial Institutions	108,333	2,668	969	2,446	104	-
10	Services	305,641	10,087	6,498	6,704	909	10
11	Personal Loans	1,087,264	21,721	6,262	11,593	6,079	2,824
12	Agriculture & Allied Activities	17,825	778	241	601	113	-
13	Government	1,075	-	1	-	-	-
14	Non-Resident Lending	1,160	-	-	-	-	-
15	All others	290,825	6,891	19,803	4,677	3,810	1,897
16	**Total**	**2,894,457**	**138,026**	**51,174**	**89,849**	**35,136**	**4,945**

2021 Parent Company

Sl. NO	Economic Sector	Gross Loans	Of which Stage 3 loans	ECL held for Stage 1 & 2	ECL held for Stage 3	Stage 3 ECL Provided during the year *	Advances written off during the year
		OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
1	Import Trade	79,499	26,385	938	16,952	6,866	-
2	Export Trade	425	36	-	4	2	-
3	Wholesale & retail trade	71,600	477	1,624	222	30	-
4	Mining & quarrying	134,240	40	2,153	8	4	-
5	Construction	227,259	38,497	4,325	27,533	12,337	-
6	Manufacturing	192,822	10,244	2,600	4,413	1,720	-
7	Electricity, gas & water	45,086	29	163	9	1	214
8	Transport & communication	106,704	890	512	564	199	-
9	Financial Institutions	94,934	781	546	559	104	-
10	Services	166,939	4,244	4,856	2,364	909	10
11	Personal Loans	735,944	17,696	4,245	9,848	6,069	2,824
12	Agriculture & Allied Activities	7,075	778	225	601	113	-
13	Government	1	-	1	-	-	-
14	Non-Resident Lending	1,160	-	-	-	-	-
15	All Others	201,386	6,430	16,963	1,835	3,690	1,897
16	**Total**	**2,065,074**	**106,527**	**39,151**	**64,912**	**32,044**	**4,945**

* Stage 3 ECL provided during the year does not include net recovery / release of RO 5.6 million.

vii. Geographic distribution of impaired loans

Table-7

2021 Consolidated

Sl. No	Countries	Gross Loans	Of which Stage 3 loans	ECL held for Stage 1 & 2	ECL held for Stage 3	Stage 3 ECL Provided during the year *	Advances written off during the year
		OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
1	Oman	2,894,457	138,026	49,887	87,327	35,136	4,945
2	Other GCC countries	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-
4	India	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	-	-
7	Total	**2,894,457**	**138,026**	**49,887**	**87,327**	**35,136**	**4,945**

2021 Parent company

Sl. No	Countries	Gross Loans	Of which Stage 3 loans	ECL held for Stage 1 & 2	ECL held for Stage 3	Stage 3 ECL Provided during the year *	Advances written off during the year
		OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
1	Oman	2,065,074	106,527	39,151	64,912	32,044	4,945
2	Other GCC countries	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-
4	India	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	-	-
7	Total	**2,065,074**	**106,527**	**39,151**	**64,912**	**32,044**	**4,945**

viii. Movement in gross loans

Table-8

2021 Consolidated

Sl.No	Details	Stage 1 OMR '000	Stage 2 OMR '000	Stage 3 OMR '000	Total OMR '000
1	Opening Balance	2,126,094	621,943	129,236	**2,877,273**
2	Migration /changes(+/-)	116,147	(119,253)	3,106	**-**
3	New Loans	961,827	101,718	13,318	**1,076,863**
4	Recovery of Loans	(1,026,874)	(26,231)	(1,629)	**(1,054,734)**
5	Loans written off	-	-	4,945	**4,945**
6	Closing Balance	2,177,194	578,177	139,086	**2,894,457**
7	Expected credit loss held	9,215	41,959	89,849	**141,023**

2021 Parent Company

Sl.No	Details	Stage 1 OMR '000	Stage 2 OMR '000	Stage 3 OMR '000	Total OMR '000
1	Opening Balance	1,529,211	506,072	103,376	**2,138,659**
2	Migration /changes(+/-)	96,366	(92,773)	(3,593)	**-**
3	New Loans	872,226	101,718	13,318	**987,262**
4	Recovery of Loans	(1,028,042)	(26,231)	(1,629)	**(1,055,902)**
5	Loans written off	-	-	4,945	**4,945**
6	Closing Balance	1,469,761	488,786	106,527	**2,065,074**
7	Expected credit loss held	7,311	31,840	64,912	**104,063**

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

Qualitative disclosures

The Bank uses the ratings by Moody's Investor Services for the credit ratings for the purpose of determining the risk weight to be assigned to the exposure for on-balance sheet assets such as loans and advances and inter-bank exposure as well as off-balance sheet items such as Letters of Credit, Guarantees and forward contracts. In the absence of a rating by the Moodys' Investor Service, the Bank uses the ratings, if any, by Standard & Poors, Fitch Ratings or Capital Intelligence which are recognized by the Central Bank of Oman.

The claims on corporate are assigned 100% risk weight except for the claims with eligible financial collaterals/d the Bank uses the simple approach for recognizing the collaterals in banking book with the approval of Central Bank of Oman. The Bank's retail loan portfolio is assigned a 100% risk weight except the loans secured by residential mortgage, which meet the conditions of CBO, for which risk weight assigned is 35%.

Quantitative Disclosure

The net exposure after risk mitigation subject to Standardized Approach is as follows:

Table-9

2021 Consolidated

Sl. No	Risk bucket	0% OMR '000	20% OMR '000	35% OMR '000	50% OMR '000	75% OMR '000	100% OMR '000	150% OMR '000	Total OMR '000
1	Sovereigns (Rated)	420,577	-	-	-	-	-	-	420,577
2	Banks (Rated)	-	23,090	-	33,810	-	16,230	-	73,130
3	Corporate	-	-	-	-	76,997	1,224,717	-	1,301,714
4	Retail	-	-	-	-	18,084	423,826	-	441,910
5	Claims secured by residential property	-	-	453,555	-	-	156,006	-	609,561
6	Claims secured by commercial property	-	-	-	-	-	338,426	-	338,426
7	Past due loans	-	-	-	-	-	51,758	-	51,758
8	Other assets	108,850	-	-	-	-	150,724	-	259,574
9	Un-drawn exposure	-	11,775	8,557	31,775	-	74,721	-	126,828
	Total	**529,427**	**34,865**	**462,112**	**65,585**	**95,081**	**2,436,408**	**-**	**3,623,478**

2021 Parent Company

Sl. No	Risk bucket	0% OMR '000	20% OMR '000	35% OMR '000	50% OMR '000	75% OMR '000	100% OMR '000	150% OMR '000	Total OMR '000
1	Sovereigns (Rated)	311,908	-	-	-	-	-	-	311,908
2	Banks (Rated)	-	22,207	-	32,346	-	13,007	-	67,560
3	Corporate	-	-	-	-	76,997	802,733	-	879,730
4	Retail	-	-	-	-	18,084	367,329	-	385,413
5	Claims secured by residential property	-	-	177,111	-	-	156,006	-	333,117
6	Claims secured by commercial property	-	-	-	-	-	338,426	-	338,426
7	Past due loans	-	-	-	-	-	41,615	-	41,615
8	Other assets	25,900	-	-	-	-	129,754	-	155,654
9	Un-drawn exposure	-	11,775	-	31,775	-	50,390	-	93,940
	Total	**337,808**	**33,982**	**177,111**	**64,121**	**95,081**	**1,899,260**	**-**	**2,607,363**

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH

Qualitative disclosures

Following are some of the specific credit risk mitigation measures employed by the Bank:

(a) Collateral

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

– charges over business assets such as premises ,inventory and accounts receivable;
– lien on fixed deposits;
– cash margins;
– mortgages over residential and commercial properties and
– pledge of marketable shares and securities;

Longer-term finance and lending to corporate entities are generally secured .The housing loans are secured by mortgage over the residential property .Credit cards and similar revolving credit facilities are unsecured. Additionally ,in order to minimise the credit loss the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements .The Bank assesses the financial performance of the borrowers by reviewing key performance ratios ,including solvency and liquidity ratios .The annual reviews are performed by the relationship managers and are also reviewed by the Credit Review Department.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans .Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

	2021 consolidated			2021 Parent company		
	Loans against shares	Loans with cash margin	Total	Loans against shares	Loans with cash margin	Total
	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Total exposure covered by eligible financial collateral	47,671	1,343	**49,014**	47,671	1,193	**48,864**
Value of the eligible collateral	47,671	1,328	**48,999**	47,671	1,247	**48,918**

BASEL II - PILLAR III AND BASEL III related disclosures

G. MARKET RISK IN TRADING BOOK

Qualitative disclosures

The Bank takes on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices .Market risks arise from the open positions in interest rate ,currency and equity products ,all of which are exposed to changes in interest rates ,credit spreads ,equity prices and foreign exchange rates .The market risks are monitored by the Treasury Division and the Risk Management Department .Management is confident that the Bank has proper risk management policies in place to ensure that interest risk ,liquidity risk and foreign exchange risk are mitigated considering the macroeconomic indicators affecting the banking business.

The Bank manages its market risk in the trading book using tools such as position limits and stop loss limits.

Currency risk arises where the value of a financial instrument changes due to changes in foreign exchange rates .In order to manage currency risk exposure ,the Bank enters into ready ,spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors.

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and entering into forward contracts based on the underlying commercial transactions with the customers. Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and the Assets and Liabilities Committee (ALCO).

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 Treasury Division of the Bank. The Bank does not hold trading position in equities. 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.

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

Capital charge for the entire market risk exposure is computed as per the standardized approach 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.

Quantitative disclosure

The Bank's profits at 31 December 2021 may decrease by (3.6% – 2020) 0.03% due to decrease by 10% in the MSM 30 - Index and the GCC market indices ,with all the other variables held constant.

H. INTEREST RATE RISK IN BANKING BOOK

Qualitative disclosures

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest-based assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as substantial portion of its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the Bank's profitability.

For managing its interest rate risk in the banking book the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the previous year.

Quantitative disclosure

The EAR as at 31 December 2021 is 2.9% (2020 – 2.6%).

The table below summarises the Bank's exposure to the interest rate risks. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

BASEL II - PILLAR III AND BASEL III related disclosures

2021 Consolidated

	Average effective interest rate	Within 3 months	4 to 6 months	7 to 12 months	> 1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Assets								
Cash and balances with the Central								
Bank of Oman	1%	60,665	1,905	2,858	10,162	-	113,314	188,904
Due from banks	0.31%	22,096	10,000	-	-	-	18,876	50,972
Loans and advances	5.27%	1,199,652	70,368	78,726	976,752	427,936	-	2,753,434
Investment- FVTPL & FVOCI		478	1,280	1,920	40,692	38,418	6,475	89,263
Amortized Cost	5.96%	-	-	2,013	92,444	118,776	-	213,233
Intangibles		-	-	-	-	-	7,210	7,210
Investment in subsidiary		-	-	-	-	-	-	-
Other assets		23,653	10,839	16,213	-	-	35,705	86,410
Property and equipment		-	-	-	-	-	43,303	43,303
Deferred tax asset		-	-	-	-	-	2,930	2,930
Total assets		**1,306,544**	**94,392**	**101,730**	**1,120,050**	**585,130**	**227,813**	**3,435,659**
Liabilities								
Due to banks	1.79%	7,700	-	-	-	-	5,659	13,359
Deposits from customers	2.47%	729,955	224,680	610,294	603,779	180,646	461,058	2,810,412
Other liabilities		2,107	-	-	18,434	-	63,957	84,498
Subordinated debt		-	-	-	-	-	-	-
Taxation		-	-	-	-	-	3,051	3,051
Total liabilities		**739,762**	**224,680**	**610,294**	**622,213**	**180,646**	**533,725**	**2,911,320**
Total interest sensitivity gap		**576,782**	**(140,288)**	**(508,564)**	**497,837**	**404,484**	**(305,912)**	**524,339**

2021 Parent Company

	Average effective interest rate	Within 3 months	4 to 6 months	7 to 12 months	> 1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Assets								
Cash and balances with the Central								
Bank of Oman	1%	-	-	-	-	-	105,954	105,954
Due from banks	0.31%	25,604	10,000	-	-	-	18,876	54,480
Loans and advances	5.27%	1,107,015	30,567	19,024	803,458	947	-	1,961,011
Investment- FVTPL & FVOCI		-	-	-	-	38,418	6,475	44,893
Amortized Cost	5.96%	-	-	2,013	74,349	118,776		195,138
Intangibles		-	-	-	-	-	-	-
Investment in subsidiary		-	-	-	-	-	107,144	107,144
Other assets		23,653	-	-	-	-	35,705	59,358
Property and equipment		-	-	-	-	-	40,337	40,337
Deferred tax asset		-	-	-	-	-	-	-
Total assets		**1,156,272**	**40,567**	**21,037**	**877,807**	**158,141**	**314,491**	**2,568,315**
Liabilities								
Due to banks	1.79%	7,700	-	-	-	-	5,659	13,359
Deposits from customers	2.47%	630,217	162,419	516,902	194,601	-	461,058	1,965,197
Other liabilities		2,107	-	-	-	-	63,957	66,064
Subordinated debt		-	-	-	-	-	-	-
Taxation		-	-	-	-	-	3,051	3,051
Total liabilities		**640,024**	**162,419**	**516,902**	**194,601**	**-**	**533,725**	**2,047,671**
Total interest sensitivity gap		**526,248**	**(131,852)**	**(495,865)**	**683,206**	**158,141**	**(219,234)**	**520,644**

I. LIQUIDITY RISK

Qualitative Disclosures

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table below represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the balance sheet date.

2021 Consolidated

	On demand or within 3 months	3 to 12 months	Sub total	1 to 5 Years	Over 5 years	Total
	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Assets						
Cash and balances with the Central Bank of Oman	107,961	24,109	132,070	35,935	20,899	188,904
Due from banks	40,972	10,000	50,972	-	-	50,972
Loans and advances	462,118	240,357	702,475	788,701	1,262,258	2,753,434
Investment securities	1,631	5,213	6,844	132,860	162,792	302,496
Investment in subsidiary	-	-	-	-	-	-
Intangibles	-	-	-	-	7,210	7,210
Other assets	51,685	34,725	86,410	2,930	-	89,340
Property and equipment	-	-	-	2,966	40,337	43,303
Total assets	**664,367**	**314,404**	**978,771**	**963,392**	**1,493,496**	**3,435,659**
Liabilities						
Due to banks	13,359	-	13,359	-	-	13,359
Deposits from customers	362,376	722,008	1,084,384	948,206	777,822	2,810,412
Other liabilities	50,496	10,846	61,342	23,156	-	84,498
Subordinated loans	-	-	-	-	-	-
Taxation	3,051	-	3,051	-	-	3,051
Total liabilities	**429,282**	**732,854**	**1,162,136**	**971,362**	**777,822**	**2,911,320**
Net assets (Total equity)	**235,085**	**(418,450)**	**(183,365)**	**(7,970)**	**715,674**	**524,339**

2021 Parent Company

	On demand or within 3 months OMR '000	3 to 12 months OMR '000	Sub total OMR '000	1 to 5 Years OMR '000	Over 5 years OMR '000	Total OMR '000
Assets						
Cash and balances with the Central Bank of Oman	47,296	19,346	66,642	18,413	20,899	105,954
Due from banks	44,480	10,000	54,480	-	-	54,480
Loans and advances	369,481	140,854	510,335	615,407	835,269	1,961,011
Investment securities	1,153	2,013	3,166	74,073	162,792	240,031
Investment in subsidiary	-	-	-	-	107,144	107,144
Intangibles	-	-	-	-	-	-
Other assets	51,731	7,627	59,358	-	-	59,358
Property and equipment	-	-	-	-	40,337	40,337
Total assets	**514,141**	**179,840**	**693,981**	**707,893**	**1,166,441**	**2,568,315**
Liabilities						
Due to banks	13,359	-	13,359	-	-	13,359
Deposits from customers	262,638	566,355	828,993	539,028	597,176	1,965,197
Other liabilities	50,541	10,846	61,387	4,677	-	66,064
Subordinated loans	-	-	-	-	-	-
Taxation	3,051	-	3,051	-	-	3,051
Total liabilities	**329,589**	**577,201**	**906,790**	**543,705**	**597,176**	**2,047,671**
Net assets (Total equity)	**184,552**	**(397,361)**	**(212,809)**	**164,188**	**569,265**	**520,644**

Liquidity Coverage Ratio (LCR)

The LCR framework issued by CBO as part of the implementation of Basel III guidelines is effective from 1 January 2015, which requires the Bank to maintain the minimum LCR of 60% for 2015 with an increase of 10% each year until it reaches 100% by 2019. LCR measures the stock of High-Quality Liquid Assets (HQLA) against short-term obligations (30 days). The Bank always maintains its ratio well above the regulatory requirement. The LCR of the Bank is 164% as at 31 December 2021 (Parent company 190%).

Net Stable Funding Ratio (NSFR)

NSFR regulation seeks that the Bank diversify its funding sources and reduce their dependency on short-term wholesale markets. The ratio compares the stock of Stable Funding against Required Funding with a minimum ratio of 100% as per the regulatory guidance. The Bank maintains a strong NSFR ratio to avoid any funding mismatch. The NSFR of the Bank is 118% as at 31 December 2021 (Parent Company 109%).

BASEL II - PILLAR III AND BASEL III related disclosures

The detailed LCR and NSFR disclosure are given below:

2021 LCR Consolidated

	(RO '000) Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets		
1 Total High Quality Liquid Assets (HQLA)		452,783
Cash Outflows		
2 Retail deposits and deposits from small business customers, of which:	814,148	69,092
3 Stable deposits	183,620	6,039
4 Less stable deposits	630,528	63,053
5 Unsecured wholesale funding, of which:	779,722	317,173
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	775,172	312,623
7 Non-operational deposits (all counterparties)	4,550	4,550
8 Unsecured debt		
9 Secured wholesale funding		
10 Additional requirements, of which	52,581	4,387
11 Outflows related to derivative exposures and other collateral		
12 Outflows related to loss of funding on debt products		
13 Credit and liquidity facilities	52581	4,387
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	451,183	22,559
16 **TOTAL CASH OUTFLOWS**		413,211
Cash Inflows		
17 Secured lending (e.g. reverse repos)		
18 Inflows from fully performing exposures	388,846	98,996
19 Other cash inflows	-	38,778
20 **TOTAL CASH INFLOWS**	388,846	137,775
		Total Adjusted Value
21 **TOTAL HQLA**		452,783
22 **TOTAL NET CASH OUTFLOWS**		275,437
23 **LIQUIDITY COVERAGE RATIO (%)**		164

2021 LCR Parent Company

	(RO '000) Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets		
1 Total High Quality Liquid Assets (HQLA)		311,190
Cash Outflows		
2 Retail deposits and deposits from small business customers, of which:	584,971	46,174
3 Stable deposits	183,620	6,039
4 Less stable deposits	401,351	40,135
5 Unsecured wholesale funding, of which:	523,221	211,036
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	518,671	206,486
7 Non-operational deposits (all counterparties)	4,550	4,550
8 Unsecured debt		
9 Secured wholesale funding		
10 Additional requirements, of which	15,527	1,553
11 Outflows related to derivative exposures and other collateral		
12 Outflows related to loss of funding on debt products		
13 Credit and liquidity facilities	15527	1,553
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	344,920	17,246
16 **TOTAL CASH OUTFLOWS**		276,009
Cash Inflows		
17 Secured lending (e.g. reverse repos)		
18 Inflows from fully performing exposures	146,150	73,075
19 Other cash inflows	192,101	38,778
20 **TOTAL CASH INFLOWS**	338,251	111,853
		Total Adjusted Value
21 **TOTAL HQLA**		311,190
22 **TOTAL NET CASH OUTFLOWS**		164,156
23 **LIQUIDITY COVERAGE RATIO (%)**		190

2021 NSFR Consolidated

		Unweighted value by residual maturity				(RO '000)
	ASF Item	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
1	Capital:	526,276	-	-	-	526,276
2	*Regulatory capital*	526,276	-	-	-	526,276
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers	-	-	-	798,650	728,173
	business customers:					
5	*Stable deposits*				187,747	178,360
6	*Less stable deposits*				610,903	549,813
7	Wholesale funding:	932,137	184,673	82,206	-	709,970
8	*Operational deposits*	-	10,216			5,108
9	*Other wholesale funding*	932,137	174,458	82,206		704,862
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in above categories*				593,350	593,350
14	**Total ASF**					2,557,769
	RSF Item					
15	Total NSFR high-quality liquid assets (HQLA)					-
16	Deposits held at other financial institutions for operational purposes					10,572
17	Performing loans and securities:	221,224	470,093	73,031	1,567,921	1,332,732
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	221,224	470,093	73,031	-	-
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				1,567,921	1,332,732
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:					
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				503,044	326,978
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	Other Assets:	264,405	37,878		-	476,581
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					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	264,405	37,878	3,661		476,581
32	Off-balance sheet items					25,188
33	**TOTAL RSF**					2,172,052
34	**NET STABLE FUNDING RATIO (%)**					118

2021 NSFR Parent Company

(RO '000)

	ASF Item	Unweighted value by residual maturity: No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
1	Capital:	422,427	-	-	-	422,427
2	*Regulatory capital*	422,427	-	-	-	422,427
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers	-	-	-	527,125	483,800
	business customers:					
5	*Stable deposits*				187,747	178,360
6	*Less stable deposits*				339,378	305,440
7	Wholesale funding:	587,563	181,004	82,206	-	535,848
8	*Operational deposits*	-	6,546			3,273
9	*Other wholesale funding*	587,563	174,458	82,206		532,575
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in above categories*				367,902	367,902
14	**Total ASF**					1,809,978
	RSF Item					
15	Total NSFR high-quality liquid assets (HQLA)					-
16	Deposits held at other financial institutions for operational purposes					9,438
17	Performing loans and securities:	133,424	420,628	81,402	1,227,251	1,043,164
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	133,424	420,628	81,402	-	-
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				1,227,251	1,043,164
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:					
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				177,111	115,122
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	Other Assets:	1,030,719	8,404		-	481,189
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					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	1,030,719	8,404			481,189
32	Off-balance sheet items					18,022
33	TOTAL RSF					1,666,935
34	NET STABLE FUNDING RATIO (%)					109

2021 Leverage Ratio

As per CBO guidelines on Leverage Ratio standards, Bank is expected to maintain a leverage ratio of 4.5%. The Bank's leverage ratio, calculated in accordance with the CBO guidelines for the Consolidated and Parent entity is as follows:

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	consolidated	Parent
1	Total consolidated assets as per published financial statements	3,435,659	2,568,315
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	202,225	202,225
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)	248,285	196,029
7	Other adjustments	-	-
8	**Leverage ratio exposure**	3,886,169	2,966,569

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	consolidated	Parent
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,435,659	2,568,315
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(11,990)	-
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	3,423,669	2,568,315
	Derivative Exposures		
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	202,225	202,225
5	Add-on amounts for PFE associated with all derivatives transactions	-	-
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)**	**202,225**	**202,225**
	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	488,238	344,920
18	(Adjustments for conversion to credit equivalent amounts)	(239,953)	(148,891)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**248,285**	**196,029**
	Capital and total exposures		
20	**Tier 1 capital**	496,833	397,920
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	3,874,180	2,966,569
	Leverage Ratio		
22	**Basel III leverage ratio (%)**	12.8	13.4

J. OPERATIONAL RISK

Qualitative Disclosures

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.

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.

The Bank has systems for collecting the data relating to operational risk incidents. The measurement of the operational risk requires historical data for at least 3 years in order to perform the calculations.

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.

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

Quantitative Disclosures

The Risk Weighted Assets for the operational risk using the Basic Indicator Approach is RO 207 Million at 31 December 2021 (Parent Company: 2021 RO 167 million).

BASEL II - PILLAR III AND BASEL III related disclosures

K. COMPOSITION OF CAPITAL DISCLOSURE

The Basel III regulations adopted by the CBO aims at strengthening the capital and liquidity standards of the banks in Oman. The elements of the Basel III regulations consist of

- Enhancing the definition of capital and strengthening the eligibility criteria for inclusion of capital instruments
- Raising the minimum capital requirements and introducing capital buffers for conservation and dealing with systemic risks in the form of Capital Conservation Buffer and Countercyclical Buffer
- Enhancing coverage of risk arising from derivatives, repos and securities financing
- Implementing the leverage ratio to control the build-up of leverage and mitigating the impact of excessive deleveraging
- Higher capital requirements for large and systemically important banks
- Implementing the Liquidity Coverage Ratio to ensure that the banks hold higher quality of liquid assets
- Implementing Net Stable Funding Ratio to ensure financing of activities with more stable source of funding

The requirements of Basel III were gradually implemented from 2013 and the higher capital requirements were implemented by 2015. The banks in Oman have to comply with the related disclosure requirements issued by CBO in the circular BM-1114 dated 16 November 2013.The transition period of phasing-in of regulatory adjustments of capital under Basel III in Oman would be from December 31, 2013 to December 31, 2018. During the transition period of phasing-in of regulatory deductions under Basel III the banks in Oman will use a modified version of disclosure of the components of capital.

A reconciliation of the Bank's Statement of Financial Position with the regulatory capital elements is provided as follows using the three-step approach outlined by the Basel Committee:

Step 1: Disclosure of the reported statement of financial position under the regulatory scope of consolidation

This step involves disclosing how the balance sheet in the published financial statements changes when the regulatory scope of consolidation is applied. This disclosure is not made since there is no difference between the scope of regulatory and accounting consolidation.

Step 2: Expanding the lines of the regulatory statement of financial position to display all of the components used in the definition of capital disclosure template

The rows of the regulatory-scope statement of financial position have been expanded such that all of the components used in the composition of capital disclosure are displayed separately.

RECONCILIATION	Consolidated		Parent Company	
	Financial Position as in published financial statements	Under regulatory scope of consolidation	Financial Position as in published financial statements	Under regulatory scope of consolidation
	As at Dec-31-2021	As at Dec-31-2021	As at Dec-31-2021	As at Dec-31-2021
	OMR '000	OMR '000	OMR '000	OMR '000
Assets				
Cash and balances with Central Bank of Oman	188,904	188,904	105,954	105,954
Due from banks	50,972	50,972	54,480	54,480
Loans and advances	2,753,434	2,753,434	1,961,011	1,961,011
Investments in securities	302,496	302,496	240,031	240,031
Property and equipment	43,303	43,303	40,337	40,337
Intangibles	7,210	7,210	-	-
Investments in subsidiary	-	-	107,144	107,144
Other assets	89,340	89,340	59,358	59,358
Total assets	**3,435,659**	**3,435,659**	**2,568,315**	**2,568,315**
Liabilities				
Due to banks	13,359	13,359	13,359	13,359
Customer deposits	2,810,412	2,810,412	1,965,197	1,965,197
Current and deferred tax liabilities	-	-	-	-
Other liabilities	84,498	84,498	66,064	66,064
Subordinated bonds	-	-	-	-
Taxation	3,051	3,051	3,051	3,051
Total liabilities	**2,911,320**	**2,911,320**	**2,047,671**	**2,047,671**
Shareholders' Equity				
Paid-up share capital	166,941	166,941	166,941	166,941
Share Premium	36,565	36,565	36,565	36,565
Special Reserve	3,837	3,837	3,837	3,837
Legal reserve	46,921	46,921	46,482	46,482
General reserve	25,560	25,560	25,560	25,560
Retained earnings	67,663	67,663	64,343	64,343
Cumulative changes in fair value of investments	(1,081)	(1,081)	(1,017)	(1,017)
Impairment reserve	9,130	9,130	9,130	9,130
Subordinated debt reserve	-	-	-	-
Total shareholders' equity	**355,536**	**355,536**	**351,841**	**351,841**
Perpetual Tier 1 Capital Bonds	**168,803**	**168,803**	**168,803**	**168,803**
Total liability and shareholders' funds	**3,435,659**	**3,435,659**	**2,568,315**	**2,568,315**

RECONCILIATION	Consolidated		Parent Company	
	Financial Position as in published financial statements	Under regulatory scope of consolidation	Financial Position as in published financial statements	Under regulatory scope of consolidation
	As at Dec-31-2021	As at Dec-31-2021	As at Dec-31-2021	As at Dec-31-2021
	OMR '000	OMR '000	OMR '000	OMR '000
Assets				
Cash and balances with CBO	**188,904**	**188,904**	**105,954**	105,954
Balance with banks and money at call and short notice	**50,972**	**50,972**	**54,480**	54,480
Investments in Subsidiary	-	-	**107,144**	-
Investments :	**302,496**	**302,496**	**240,031**	**240,031**
Of which :				
Held to collect	12,457	12,457	12,463	12,463
FVOCI	88,972	88,972	44,596	44,596
FVPL	473	473	473	473
GDB	182,499	182,499	182,499	182,499
Government Sukuk	18,095	18,095	-	-
Intangibles	**7,210**	**7,210**	-	-
Loans and advances	**2,753,434**	**2,723,997**	**1,961,011**	**1,936,509**
Of which :				
Loans and advances to domestic banks	-	-	-	-
Loans and advances to non-resident banks	-	-	-	-
Loans and advances to domestic customers	1,959,961	1,867,756	1,961,011	1,868,806
Loans and advances to non-resident Customers for domestic operations	-	-	-	-
Loans and advances to non-resident Customers for operations abroad	-	-	-	-
Loans and advances to SMEs	-	92,205	-	92,205
Financing from Islamic banking	793,473	793,473	-	-
Allowances for the credit losses	-	(29,437)	-	(24,502)
Of which :				
Stage 3	-	-	-	-
Stage 1 & Stage 2	-	(29,437)	-	(24,502)
Fixed assets	**43,303**	**43,303**	**40,337**	**40,337**
Other assets	**89,340**	**89,340**	**59,358**	**59,358**
Total Assets	**3,435,659**	**3,406,222**	**2,568,315**	**2,436,669**

RECONCILIATION	Consolidated		Parent Company	
	Financial Position as in published financial statements	Under regulatory scope of consolidation	Financial Position as in published financial statements	Under regulatory scope of consolidation
	As at Dec-31-2021	As at Dec-31-2021	As at Dec-31-2021	As at Dec-31-2021
	OMR '000	OMR '000	OMR '000	OMR '000
Capital & Liabilities				
Paid-up Capital	**166,941**	**166,941**	**166,941**	**166,941**
Of which:				
Amount eligible for CET1	166,941	166,941	166,941	166,941
Amount eligible for AT1	168,803	163,803	168,803	163,803
Reserves & Surplus	**188,595**	**178,079**	**184,900**	**174,320**
Of which:				
Legal reserve	46,921	46,921	46,482	46,482
General reserve	25,560	25,560	25,560	25,560
Retained earnings	67,663	67,663	64,343	64,343
Proposed dividends	-	-	-	-
Cumulative changes in fair value of investments	(1,081)	(1,030)	(1,017)	(1,030)
Of which:				
Amount eligible for Tier 2 capital	-	13	-	13
Share premium	36,565	36,565	36,565	36,565
Impairment reserve	9,130	-	9,130	-
Subordinated debt reserve	-	-	-	-
Special reserve	3,837	2,400	3,837	2,400
Total Capital	**524,339**	**508,823**	**520,644**	**505,064**
Deposits	**2,810,412**	**2,810,412**	**1,965,197**	**1,965,197**
Of which:				
Deposits from banks				
Customer deposits	**1,965,197**	**1,965,197**	**1,965,197**	**1,965,197**
Deposits of Islamic Banking window	**845,215**	**845,215**	**-**	**-**
Borrowings	**13,359**	**13,359**	**13,359**	**13,359**
Of which:				
From CBO	**-**	**-**	**-**	**-**
From banks	**13,359**	**13,359**	**13,359**	**13,359**
From other institutions & agencies			-	-
Borrowings in the form of bonds, Debentures and sukuks	-	-	-	-
Of which:				
Directly issued qualifying Tier 2 instruments	-	-	-	-
Amount de-recognised from Tier 2 capital	-	-	-	-
Other liabilities & provisions	**87,549**	**87,549**	**69,115**	**69,115**
Total Capital, Other liabilities & provisions	**3,435,659**	**3,420,143**	**2,568,315**	**2,552,735**

Common Equity Tier 1 capital: instruments and reserves	Consolidated	Parent Company
	Under regulatory scope of consolidation	Under regulatory scope of consolidation
	OMR '000	OMR '000
Directly issued qualifying common share capital	166,941	166,941
Retained earnings	67,663	64,343
Accumulated other comprehensive income (and other reserves)	111,446	111,007
Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
Total regulatory adjustments to Common equity Tier 1	(13,020)	(108,174)
Common Equity Tier 1 capital (CET1)	**333,030**	**234,117**
Additional Tier 1 capital (AT1)	**163,803**	**163,803**
Tier 1 capital (T1 = CET1 + AT1)	**496,833**	**397,920**
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments	-	-
Eligible expected credit loss	29,437	24,502
Amount of Cumulative changes in fair value of investments eligible for Tier 2 capital	6	6
Tier 2 capital (T2)	**29,443**	**24,508**
Total capital (TC = T1 + T2)	**526,276**	**422,428**

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

Main features of Common Shares	
Issuer	OMAN ARAB BANK
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	OM0000005260
Governing law(s) of the instrument Regulatory treatment	Oman Banking law
Transitional Basel III rules	Eligible for inclusion in CET-1 Capital
Post-transitional Basel III rules	Eligible for inclusion in CET-1 Capital
Eligible at solo/group/group & solo	Solo
Instrument type (types to be specified by each jurisdiction)	Loan
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 166.9 Million
Par value of instrument	OMR 0.1
Accounting classification	Shareholder's equity
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 20 of notes to accounts.
Perpetual or dated	Perpetual
Original maturity date	-
Issuer call subject to prior supervisory approval	-
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	-
Coupons / dividends	
Fixed or floating dividend/coupon	No coupon
Coupon rate and any related index	-
Existence of a dividend stopper	Yes
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	-
Noncumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-
Write-down feature	Yes
If write-down, write-down trigger(s)	Non-viability event
If write-down, full or partial	Full
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Fully Subordinated (Subordinated debt are senior to ordinary shares)
Non-compliant transitioned features	-

Perpetual Bonds

On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulation.

Main features of Perpetual Bonds		
1	Issuer	OMAN ARAB BANK
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	OM0000005344
3	Governing law(s) of the instrument Regulatory treatment	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 30 Million
9	Par value of instrument	OMR 30 Million
10	Accounting classification	Additional Tier 1
11	Original date of issuance	29/12/2016
12	Perpetual or dated	Perpetual
13	Original maturity date	-
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 29/01/2022 or on any interest payment date thereafter subject to the prior consent of the regulatory authority
16	Subsequent call dates, if applicable	Any interest payment date occurring after 29/01/2022, means each 29 June and 29 December in each year, starting on and including 29/01/2020
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.75%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Non-viability event
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	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

On 17 October 2018, the Bank issued another series of unsecured perpetual Tier 1 bonds of RO 42.5 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds are in pari-passu with earlier issue.

Main features of Perpetual Bonds		
1	Issuer	OMAN ARAB BANK
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	OM0000006805
3	Governing law(s) of the instrument Regulatory treatment	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 42.553 Million
9	Par value of instrument	OMR 42.553 Million
10	Accounting classification	Additional Tier 1
11	Original date of issuance	17/10/2018
12	Perpetual or dated	Perpetual
13	Original maturity date	-
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 17/10/2023 or on any interest payment date thereafter subject to the prior consent of the regulatory authority
16	Subsequent call dates, if applicable	Any interest payment date occurring after 17/10/2023, means each 17 April and 17 October in each year, starting on and including 17/10/2023
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.5%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Non-viability event
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	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

On 7 June 2021, the Bank issued unsecured perpetual Tier 1 bonds of USD 250 million (2,500,000 units of USD 100 each equivalent to RO 96.25 million through private placement). The bonds are listed in the International Securities Market (ISM) of London Stock Exchange and are transferable through trading. The bonds carry a fixed coupon rate of 7.625% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion.

Main features of Perpetual Bonds		
1	Issuer	OMAN ARAB BANK
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS2346530244
3	Governing law(s) of the instrument Regulatory treatment	English law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	USD 250 Million (OMR 96.250 Million)
9	Par value of instrument	USD 250 Million (OMR 96.250 Million)
10	Accounting classification	Additional Tier 1
11	Original date of issuance	27/05/2021
12	Perpetual or dated	Perpetual
13	Original maturity date	-
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 04/06/2026 or on any interest payment date thereafter subject to the prior consent of the regulatory authority
16	Subsequent call dates, if applicable	Any interest payment date occurring after 04/06/2026, means each 4 June and 4 December in each year, starting on and including 04/06/2026
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.625%
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Non-viability event
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	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

The following table shows the composition of capital under Basel III:

		Consolidated AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT OMR '000	Parent Company AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT OMR '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	166,941	166,941
2	Retained earnings	67,663	64,343
3	Accumulated other comprehensive income (and other reserves)	111,446	111,007
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 CET1)	-	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**346,050**	**342,291**
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(1,030)	(1,030)
8	Intangibles (net of related tax liability)	(7,210)	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(4,780)	-
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 losses	-	-
13	Securitisation gain on sale (as set out in paragraph 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)	-	(107,144)
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	-	-
27	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to Pre-Basel III Treatment	-	-
28	Perpetual Bonds		
29	**Total regulatory adjustments to Common equity Tier 1**	**(13,020)**	**(108,174)**
29	**Common Equity Tier 1 capital (CET1)**	**333,030**	**234,117**
Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	168,803	168,803
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 CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
35	of which: instruments issued by subsidiaries subject to phase out	-	-
36	**Additional Tier 1 capital before regulatory adjustments**	**168,803**	**168,803**
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)	(5,000)	(5,000)
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 AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	**(5,000)**	**(5,000)**
44	**Additional Tier 1 capital (AT1)**	**163,803**	**163,803**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**496,833**	**397,920**
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	6	6
47	Directly issued capital instruments subject to phase out from Tier 2	-	-
48	Tier 2 instruments (and CET1 and AT1 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	Subordinated term debt.		-
50	Eligible expected credit loss	29,437	24,502
51	**Tier 2 capital before regulatory adjustments**	**29,443**	**24,508**

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	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	-
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 the 10% threshold)	-	-
55	Significant investments in the capital 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 AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-	-
	OF WHICH: Cumulative unrealised gains on available-for-sale financial instruments	-	-
57	**Total regulatory adjustments to Tier 2 capital**	-	-
58	**Tier 2 capital (T2)**	**29,443**	**24,508**
59	**Total capital (TC = T1 + T2)**	**526,276**	**422,428**
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	**2,965,633**	**2,260,789**
60	**Total risk weighted assets (60a+60b+60c)**	**2,965,633**	**2,260,789**
60a	Of which: Credit risk weighted assets	2,718,921	2,080,951
60b	Of which: Market risk weighted assets	39,376	13,188
60c	Of which: Operational risk weighted assets	207,336	166,650
	Capital Ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.23%	10.35%
62	Tier 1 (as a percentage of risk weighted assets)	16.75%	17.60%
63	Total capital (as a percentage of risk weighted assets)	17.75%	18.68%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	8.250%	8.250%
65	of which: capital conservation buffer requirement	1.250%	1.250%
66	of which: bank specific countercyclical buffer requirement	0%	0%
67	of which: D-SIB/G-SIB buffer requirement	0%	0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	6.75%	7.68%
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%	7.00%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%	9.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.25%	12.25%

	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	Expected credit loss eligible for inclusion in Tier 2 in respect of exposures subject to standard approach (prior to application of cap)	29,437	24,502
77	Cap on inclusion of Expected credit loss in Tier 2 under standardised approach	1.25%	1.25%
78	Expected credit loss 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 Expected credit loss 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 CET1 instruments subject to phase out arrangements	-	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
82	Current cap on AT1 instruments subject to phase out arrangements	-	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	Current cap on T2 instruments subject to phase out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

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Independent Auditor's Report to the Shareholders of Financial Statements

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Independent auditors' report

To the Shareholders of Oman Arab Bank SAOG

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Oman Arab Bank SAOG (the Bank) and its subsidiary, (together referred to as the Group) which comprise the consolidated and separate statement of financial position as at 31 December 2021, the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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 *Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Key Audit Matters (continued)

Expected credit loss allowance (ECL) against loans, advances and financing	
See Note 3.2, 4.1, 5.1, 5.1.4 and 9 to the consolidated and separate financial statements.	
The key audit matter	**How the matter was addressed in our audit**
for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cash flows; and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages. 3) The need to apply management overlays using expert credit judgement to reflect all relevant risk factors especially relating to the ongoing COVID-19 pandemic that might not be captured by the ECL model. The application of these judgements and estimates, particularly in context of the COVID-19 pandemic, continues to result in heightened estimation uncertainty and the associated audit risk around ECL calculations as at 31 December 2021.	pandemic, particularly those that continue to be eligible for deferral of instalments under government support programs based on the relevant Central Central of Oman ('CBO') circulars setting out the definition criteria as at 31 December 2021; – We assessed the governance process established by the Group and the qualitative factors considered by the Group when applying any overlays or making any adjustments to the outputs from the ECL model, due to data or model limitations or otherwise; – We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model including forward looking assumptions in cognisance of the uncertainty and volatility in economic scenarios due to the effects of COVID 19 pandemic; – We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2021; – Where relevant, we involved our financial risk management specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in management overlays; and – We assessed the adequacy of disclosures in the consolidated and separate financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated and separate financial statements and our auditors' report thereon:

- Chairman's Report;
- Management Discussion and Analysis Report;
- Corporate Governance Report; and
- Basel II Pillar III and Basel III Report.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or

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Other Information (continued)

our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Management and Those Charged with Governance for the Consolidated and Separate Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as management determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Bank's and the Group'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 management either intends to liquidate the Bank and the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 these consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 Group's and 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 auditors' report to the related disclosures in the

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Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements (continued)

consolidated and separate 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 auditors' report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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, we report that separate financial statements of the Bank as at and for the year ended 31 December 2021, comply, in all material respects, with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 2019.

Ravikanth Petluri
13 March 2022

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ANNUAL
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2021

Financial Statements

Statement of Financial Position
as at 31st December 2021

	Notes	Consolidated 31-Dec-21 OMR '000	Consolidated 31-Dec-20 OMR '000	Parent Company 31-Dec-21 OMR '000	Parent Company 31-Dec-20 OMR '000
ASSETS					
Cash and balances with the Central Bank of Oman	7	**188,904**	220,975	**105,954**	173,652
Due from banks	8	**50,972**	72,838	**54,480**	71,051
Loans, advances and financing to customers	9	**2,753,434**	2,645,359	**1,961,011**	1,936,806
Investment securities	10	**302,496**	240,218	**240,031**	176,700
Investment in subsidiary	11	**-**	-	**107,144**	107,144
Property and equipment	12	**43,303**	46,605	**40,337**	42,479
Intangible assets	13	**7,210**	6,505	**-**	-
Other assets	14	**89,340**	69,888	**59,358**	49,228
Total assets		**3,435,659**	**3,302,388**	**2,568,315**	**2,557,060**
LIABILITIES					
Due to banks	15	**13,359**	14,421	**13,359**	10,571
Deposits from customers	16	**2,810,412**	2,755,310	**1,965,197**	2,030,762
Other liabilities	17	**84,498**	76,847	**66,064**	59,908
Subordinated loans	18	**-**	20,000	**-**	20,000
Taxation	19	**3,051**	4,233	**3,051**	4,233
Total liabilities		**2,911,320**	2,870,811	**2,047,671**	2,125,474
EQUITY					
Share capital	20	**166,941**	166,941	**166,941**	166,941
Share premium	21	**36,565**	36,565	**36,565**	36,565
Legal reserve	26	**46,921**	46,178	**46,482**	46,178
General reserve	22	**25,560**	25,560	**25,560**	25,560
Subordinated loans reserve	23	**-**	20,000	**-**	20,000
Special reserve	24	**3,837**	3,837	**3,837**	3,837
Fair value reserve		**(1,081)**	(1,793)	**(1,017)**	(2,062)
Impairment reserve	9	**9,130**	9,130	**9,130**	9,130
Retained earnings		**67,663**	52,606	**64,343**	52,884
Total equity attributable to the equity holders of the Bank		**355,536**	**359,024**	**351,841**	**359,033**
Perpetual Tier 1 capital bonds	25	**168,803**	72,553	**168,803**	72,553
Total equity		**524,339**	**431,577**	**520,644**	**431,586**
Total equity and liabilities		**3,435,659**	3,302,388	**2,568,315**	2,557,060
Net assets value per share (RO)	39	**0.213**	0.215	**0.211**	0.215
Contingent liabilities and commitments	40	**451,183**	470,678	**344,920**	402,692

The financial statements were authorised on 13 March 2022 for issue in accordance with a resolution of the Board of Director.

Chairman

Director

Acting Chief Executive Officer

The accompanying notes 1 to 46 form part of these financial statements.

Statement of Comprehensive income
For the year ended 31 December 2021

	Notes	Consolidated 2021 OMR '000	Consolidated 2020 OMR '000	Parent Company 2021 OMR '000	Parent Company 2020 OMR '000
Interest income	28	**119,058**	118,867	**119,058**	118,867
Interest expense	29	**(50,731)**	(47,963)	**(50,731)**	(47,952)
Net interest income		**68,327**	70,904	**68,327**	70,915
Net income from Islamic financing	30	**21,217**	10,103	**-**	993
Net fee and commission income	31	**17,232**	15,496	**13,369**	14,275
Net income / (loss) from investment securities	32	**3,338**	(134)	**3,338**	-
Other operating income	33	**11,511**	5,555	**9,938**	5,220
Total income		**121,625**	101,924	**94,972**	91,403
Operating expenses	34	**(78,471)**	(65,408)	**(59,827)**	(55,299)
Net allowances for credit losses	9	**(35,153)**	(18,567)	**(31,118)**	(18,011)
Profit before tax		**8,001**	17,949	**4,027**	18,093
Income tax expense	19	**(920)**	(3,778)	**(983)**	(3,778)
Net Profit for the year		**7,081**	14,171	**3,044**	14,315
Other comprehensive (loss) / income:					
Items that will not be reclassified to profit or loss in the subsequent years:					
Equity investment at FVOCI – net change in fair value		**197**	(119)	**197**	(134)
Items that are or may be reclassified to profit or loss in the subsequent years:					
Debt investment at FVOCI – net change in fair value		**(571)**	120	**(238)**	-
Debt investment at FVOCI – reclassified to profit or loss		**-**	(134)	**-**	-
Other comprehensive loss for the year		**(374)**	(133)	**(41)**	(134)
Total comprehensive income for the year		**6,707**	14,038	**3,003**	14,181
Earnings per share:					
Basic and diluted (RO)	35	**(0.002)**	0.006	**(0.004)**	0.006

The accompanying notes 1 to 46 form part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2021

Consolidated	Notes	Share capital OMR '000	Share premium OMR '000	Legal reserve OMR '000	General reserve OMR '000	Subordinated loan reserve OMR '000	Special reserve OMR '000	Fair value reserve OMR '000	Impairment reserve OMR '000	Retained earnings OMR '000	Sub total OMR '000	Perpetual Tier 1 capital bonds OMR '000	Total OMR '000
Balance at 1 January 2021		166,941	36,565	46,178	25,560	20,000	3,837	(1,793)	9,130	52,606	359,024	72,553	431,577
Total comprehensive income													
Net Profit for the year		-	-	-	-	-	-	-	-	7,081	7,081	-	7,081
Other comprehensive income													
Unrealised loss on FVOCI investments		-	-	-	-	-	-	(374)	-	-	(374)	-	(374)
Realised loss on FVOCI investments		-	-	-	-	-	-	1,086	-	(1,086)	-	-	-
Transaction with equity holders of the Bank													
Interest distribution of Perpetual Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	(9,187)	(9,187)	-	(9,187)
Transfer to legal reserve	26	-	-	743	-	-	-	-	-	(743)	-	-	-
Additional Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	-	-	96,250	96,250
Issuance cost on Perpetual Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	(1,008)	(1,008)	-	(1,008)
Transfer to retained earnings	23	-	-	-	-	(20,000)	-	-	-	20,000	-	-	-
At 31 December 2021		166,941	36,565	46,921	25,560	-	3,837	(1,081)	9,130	67,663	355,536	168,803	524,339

The accompanying notes 1 to 46 form part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2021

Parent Company	Notes	Share capital	Share premium	Legal reserve	General reserve	Subordinated loan reserve	Special reserve	Fair value reserve	Impairment reserve	Retained earnings	Sub total	Perpetual Tier 1 capital bonds	Total
		OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Balance at 1 January 2021		**166,941**	**36,565**	**46,178**	**25,560**	**20,000**	**3,837**	**(2,062)**	**9,130**	**52,884**	**359,033**	**72,553**	**431,586**
Total comprehensive income													
Net Profit for the year		-	-	-	-	-	-	-	-	**3,044**	**3,044**	-	**3,044**
Other comprehensive income													
Unrealised loss on FVOCI investments		-	-	-	-	-	-	**(41)**	-	-	**(41)**		**(41)**
Realised loss on FVOCI investments		-	-	-	-	-	-	**1,086**	-	**(1,086)**	-	-	-
Transaction with equity holders of the Bank													
Interest distribution of Perpetual Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	**(9,187)**	**(9,187)**	-	**(9,187)**
Transfer to legal reserve	26	-	-	**304**	-	-	-	-	-	**(304)**	-	-	-
Additional Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	-	-	**96,250**	**96,250**
Issuance cost on Perpetual Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	**(1,008)**	**(1,008)**	-	**(1,008)**
Transfer to retained earnings	23	-	-	-	-	**(20,000)**	-	-	-	**20,000**	-	-	-
At 31 December 2021		**166,941**	**36,565**	**46,482**	**25,560**	-	**3,837**	**(1,017)**	**9,130**	**64,343**	**351,841**	**168,803**	**520,644**

The accompanying notes 1 to 46 form part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2021

Consolidated	Notes	Share capital	Share premium	Legal reserve	General reserve	Subordinated loan reserve	Special reserve	Fair value reserve	Impairment reserve	Retained earnings	Sub total	Perpetual Tier 1 capital bonds	Total
		OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Balance at 1 January 2020		134,620	-	44,746	25,560	16,000	3,915	(1,951)	9,130	64,270	296,290	72,553	368,843
Total comprehensive income													
Net Profit for the year		-	-	-	-	-	-	-	-	14,171	14,171	-	14,171
Other comprehensive income													
Unrealised gain on FVOCI investments		-	-	-	-	-	-	1	-	-	1	-	1
Realised loss on FVOCI investments		-	-	-	-	-	-	157	-	(157)	-	-	-
Transaction with equity holders of the Bank													
Dividends paid	27	-	-	-	-	-	-	-	-	(14,808)	(14,808)	-	(14,808)
Issue of share capital	20	32,321	-	-	-	-	-	-	-	-	32,321	-	32,321
Issue of share premium	21	-	36,565	-	-	-	-	-	-	-	36,565	-	36,565
Interest distribution of Perpetual Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	(5,516)	(5,516)	-	(5,516)
Transfer to legal reserve	26	-	-	1,432	-	-	-	-	-	(1,432)	-	-	-
Transfer from subordinated loans reserve	23	-	-	-	-	4,000	-	-	-	(4,000)	-	-	-
Transfer to retained earnings		-	-	-	-	-	(78)	-	-	78	-	-	-
At 31 December 2020		166,941	36,565	46,178	25,560	20,000	3,837	(1,793)	9,130	52,606	359,024	72,553	431,577

The accompanying notes 1 to 46 form part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2021

Parent Company	Notes	Share capital OMR '000	Share premium OMR '000	Legal reserve OMR '000	General reserve OMR '000	Subordinated loan reserve OMR '000	Special reserve OMR '000	Fair value reserve OMR '000	Impairment reserve OMR '000	Retained earnings OMR '000	Sub total OMR '000	Perpetual Tier 1 capital bonds OMR '000	Total OMR '000
Balance at 1 January 2020		134,620	-	44,746	25,560	16,000	3,915	(1,951)	9,130	64,270	296,290	72,553	368,843
Total comprehensive income													
Net Profit for the year		-	-	-	-	-	-	-	-	14,315	14,315	-	14,315
Other comprehensive income													
Unrealised gain on FVOCI investments		-	-	-	-	-	-	(134)	-	-	(134)	-	(134)
Realised loss on FVOCI investments		-	-	-	-	-	-	23	-	(23)	-	-	-
Transaction with equity holders of the Bank													
Dividends paid	27	-	-	-	-	-	-	-		(14,808)	(14,808)	-	(14,808)
Issue of share capital	20	32,321	-	-	-	-	-	-	-	-	32,321	-	32,321
Issue of share premium	21	-	36,565	-	-	-	-	-	-	-	36,565	-	36,565
Interest distribution of Perpetual Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	(5,516)	(5,516)	-	(5,516)
Transfer to legal reserve	26	-	-	1,432	-	-	-	-	-	(1,432)	-	-	-
Transfer from subordinated loans reserve	23	-	-	-	-	4,000	-	-	-	(4,000)	-	-	-
Transfer to retained earnings		-		-	-	-	(78)	-	-	78	-	-	-
At 31 December 2020		166,941	36,565	46,178	25,560	20,000	3,837	(2,062)	9,130	52,884	359,033	72,553	431,586

The accompanying notes 1 to 46 form part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2021

	Notes	Consolidated 31-Dec-21 OMR '000	Consolidated 31-Dec-20 OMR '000	Parent Company 31-Dec-21 OMR '000	Parent Company 31-Dec-20 OMR '000
Operating activities					
Profit before tax		**8,001**	17,949	**4,027**	18,093
Adjustments:					
Depreciation and amortization	34	**10,202**	6,880	**8,475**	6,136
Amortization	34	**465**	-	**-**	-
Impairment for credit losses		**35,153**	18,567	**31,118**	18,011
Income from investments at amortized cost	28 & 30	**(13,949)**	(10,280)	**(10,892)**	(8,967)
Dividend income	32	**(149)**	(71)	**(149)**	(71)
Loss on sale of property and equipment		**-**	39	**-**	39
Profit on sale of amortised cost investments	32	**(3,120)**	134	**(3,120)**	-
Bargain purchase gain	33	**(1,170)**	-	**-**	-
Interest on subordinated loan	29	**452**	1,103	**452**	1,103
Changes in fair value of financial assets at fair value through profit or loss	32	**(69)**	71	**(69)**	71
Operating profit before working capital changes		**35,816**	34,392	**29,842**	34,415
Loans, advances and financing to customers		**(144,126)**	(91,721)	**(54,147)**	(80,466)
Due from banks		**3,096**	7,000	**3,096**	7,000
Other assets		**(17,186)**	(5,328)	**(10,130)**	(1,823)
Deposits from customers		**55,102**	184,512	**(65,565)**	162,857
Other liabilities		**7,403**	(11,650)	**6,433**	(11,305)
Cash (used in) / generated from operations		**(59,895)**	117,205	**(90,471)**	110,678
Tax paid		**(2,405)**	(5,923)	**(2,405)**	(5,923)
Net cash (used in) / generated from operating activities		**(62,300)**	111,282	**(92,876)**	104,755
Investing activities					
Purchase of investments		**(103,070)**	(49,823)	**(103,070)**	(23,468)
Proceeds from sale of investments		**42,709**	16,819	**41,592**	8,388
Income from investments at amortized cost		**13,949**	10,280	**10,892**	8,967
Purchase of property and equipment		**(6,785)**	(9,528)	**(6,218)**	(9,074)
Proceeds from sale of property and equipment		**-**	2	**-**	2
Dividend Income		**149**	71	**149**	71
Investment made in the subsidiary		**-**	-	**-**	(19,500)
Net cash used in investing activities		**(53,048)**	(32,179)	**(56,655)**	(34,614)
Financing activities					
Proceeds from perpetual Tier 1 capital bonds		**96,250**	-	**96,250**	-
Subordinated loan repayment		**(20,000)**	-	**(20,000)**	-
Interest on subordinated loan		**(452)**	(1,103)	**(452)**	(1,103)
Interest on Perpetual Tier 1 capital bonds		**(9,187)**	(5,516)	**(9,187)**	(5,516)
Additional Tier 1 cost		**(1,008)**	-	**(1,008)**	-
Dividends paid		**-**	(14,808)	**-**	(14,808)
Net cash from / (used in) financing activities		**65,603**	(21,427)	**65,603**	(21,427)
Net (decrease) / increase in cash and cash equivalents		**(49,745)**	57,676	**(83,928)**	48,714
Cash and cash equivalents at the beginning of year		**265,311**	178,501	**220,576**	178,501
Cash and cash equivalents from acquisition of Alizz and disposal of Al Yusr		**-**	29,134	**-**	(6,639)
Cash and cash equivalents at the end of the year	37	**215,566**	265,311	**136,648**	220,576

The accompanying notes 1 to 46 form part of these financial statements.

Notes to the Financial Statements
as at 31 December 2021

1. Legal status and principal activities

Oman Arab Bank SAOG (the Parent Company) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company (SAOC). On 6 July 2020, Oman Arab Bank SAOC acquired Al Izz Islamic Bank SAOC (AIB) and become an open joint stock company (SAOG) and was listed on the Muscat Stock Exchange (MSX). The Parent Company is principally engaged in commercial and investment banking activities through a network of branches in the Sultanate of Oman. The registered head office of the bank is North Al Ghoubra, P.O. Box 2240, Al-Udhayabah, Postal Code 130, Muscat, Sultanate of Oman. The Parent Company was a subsidiary of Oman International Development and Investment Company SAOG up to 29 June 2020. On 30 June 2020, Oman Arab Bank SAOG became a subsidiary of Arab Bank PLC, an entity listed in Jordan, and holds 49% shareholding in the Parent Company.

The consolidated financial statements for the year ended 31 December 2021 comprises of the results of the Parent Company and Al Izz Islamic Bank (AIB) (the Subsidiary). Comparative consolidated financial statements includes 6 months results of AIB i.e. from 1 July to 31 December 2020 as date of control transferred being 30 June 2020 and 6 months results of Al Yusr (previously Islamic window of the Parent Company). The details of the subsidiary are provided in note 11.

The Subsidiary prepares its own separate set of financial statements in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Sharia Rules and Principles as determined by the Sharia Supervisory Board (the "SSB") and other applicable requirements of the CBO. The Subsidiary's financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these consolidated financial statements.

The Parent Company and the Subsidiary together are referred to as 'the Group' or 'the Bank'.

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 International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 2019, the disclosure requirements of the Capital Market Authority (CMA) of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman (CBO).

The CMA requires that all Public Joint Stock Companies disclose the financials of the Parent Company in a separate column in the consolidated financial statements (via circular E/2/2007 from 21 January 2007).

The Bank presents its statement of financial position in descending order of liquidity, as this presentation is more appropriate to the Group's operations.

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2.2 Basis of measurement

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

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), rounded to the nearest thousand unless otherwise stated.

2.4 Use of estimates and judgments

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 year in which the estimate is revised and in any future years 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.

2.5 New and amended standards and interpretations to IFRS relevant to the Bank

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

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

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

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

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

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

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

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
- Financial risk to the Group and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
- Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available
- Accounting risk if the Group's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

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

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

2.6 Standards issued but not yet effective

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the years presented in these financial statements. The significant accounting policies adopted in preparation of these financial statements are as follows:

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of Oman Arab Bank SAOG ("Parent Company") and its subsidiary as at 31 December 2021. The Group owns 100% of the equity in AIB and has control of the subsidiary. IFRS 10 introduces a control model that focuses on whether the Bank has power over the investee, exposure or rights to variable returns from its investment with the investee and the ability to use its power to affect those returns. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statement from the date on which control commences until the date when control ceases. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3. SIGNIFICANT ACCOUNTING POLICIES

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

Non-controlling interests (NCI)

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.2 Financial assets and liabilities

Recognition and initial measurement

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

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. Regular way purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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.

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Classification

- On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through Other Comprehensive Income ("FVOCI") or Fair Value through profit or loss ("FVTPL"). A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:
- the asset is held within a 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 Payment of Principal and Interest ("SPPI").

- A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a 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 SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

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

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

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

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

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

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Debt securities measured at FVOCI

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

- interest revenue using the effective interest method;
- Expected credit loss (ECL) and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Reclassifications

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

Financial liabilities

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

Derecognition

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

De-recognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired ("POCI").

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

De-recognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

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Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the year between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

Modifications of financial assets and financial liabilities

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the profit and loss statement. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Impairment

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

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

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- unutilized loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Overview of the ECL principles

The Bank records the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

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

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

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

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

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

Stage 1

When financing are first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2. The Bank also, in limited circumstances and with proper justifications and specific approval from the Chief Risk Officer, does not treat certain events as significant increases in credit risk to continue classifying a financing exposure under Stage 1 (this is in line with CBO circular BM 1149). The Bank considers following types of debts as 'low credit risk (LCR)':

- All Oman Government sovereign exposures
- All local currency exposures to or guaranteed by the Government of Oman or CBO

It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk.

Stage 2

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

Stage 3

Financing exposure considered credit-impaired. The bank records an allowance for the LTECLs.

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

Stage 1

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

Stage 2

Credit risk has increased significantly since initial recognition – recognise lifetime expected losses with revenue being calculated based on the gross amount of the asset.

Stage 3

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

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective interest rate (EIR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

When estimating Lifetime ECLs for unutilised loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weightages. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an unutilised commitment, loan commitments and letters of credit, the ECLs are calculated and presented together with the loan.

The calculation of ECLs

- The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:
- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed year, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

– financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
– loan commitments and financial guarantee contracts: generally, as a provision;

where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;

Experienced credit judgement

The Bank's ECL allowance methodology requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting years.

Write-off

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

3.3 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition. These include: cash and non-restricted balances with the CBO, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks, amounts due to other banks and short-term government securities. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.4 Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions.

3.5 Property and equipment

Property and equipment are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation on the assets except land is calculated using the straight-line basis to allocate their cost over the estimated useful lives, as follows:

	Years
Building	25
Leasehold improvements	Shorter of lease year or 5-10
Equipment, furniture and fixtures	5-10
Computer equipment and Software	5
Motor vehicles	5

The assets' residual values and useful lives are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down to their recoverable amount. 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 the 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 recognised in the profit or loss as an expense as incurred.

3.6 Impairment of non-financial assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss.

3.7 Revenue recognition

Fees and commissions

Fees and commissions income relating to underwriting and financing activities is recognised as the related service is performed. Fees and commission income and expense that are integral to the effective profit rate on a financial asset or financial liability are included in the measurement of the effective profit rate.

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

Type of service

Retail and corporate banking services

Nature and timing of satisfaction of performance obligations, including significant payment terms

The Group provides banking services to retail and corporate customers including trade finance, account management, foreign currency transactions, credit cards and servicing fees (e.g. documentation and processing fee).

Fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.

Transaction-based fees for interchange, foreign currency transactions are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.

Revenue recognition under IFRS 15

Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place. The premium received on trade finance activities is recognised in the consolidated statement of profit or loss on a straight-line basis over the life of the guarantees and letters of credit.

3.8 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 profit or loss.

3.9 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.

3.10 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 the proceeds, net of transaction costs, and the redemption value is recognised in the profit or loss over the year of the borrowings using the effective interest 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 down. 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 down, the fee is capitalised as a pre-payment for liquidity services and amortised over the year of the facility to which it relates.

3.11 Investment in subsidiary

In Parent Company financial statements, investment in subsidiary is stated at cost, less any impairment in the value of the investments. Dividend income from subsidiary is accounted in the year in which entitlement is established.

3.12 Perpetual bonds

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 obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments. 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.

3.13 Employee terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law.

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.

3.14 Voluntary end of service benefits

Voluntary end of service benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if it is probable that the offer made by the Bank will be accepted, and the number of acceptances can be estimated reliably.

3.15 Deposits from customers

Deposits from banks and customers and subordinated liabilities are the Bank's sources of funding. All money market and customer deposits are carried at amortised cost using EIR.

3.16 Taxation

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 profit or loss 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.

3.17 Fair value measurement principles

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.

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

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

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

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

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

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

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

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

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

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents. The Bank also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

3.18 Interest income and expense

Interest income and expense is recognised in the profit or loss using the effective interest 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 year) to the gross carrying amount or the amortised cost of the financial asset or liability. The calculation of effective interest rate includes transaction costs and fees paid / received that are an integral part of effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

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

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

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and
- Interest on debt investment securities on an effective interest rate basis.

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

3.19 Acceptances

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

3.20 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is 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); or
- hedges of a net investment in a foreign operation (net investment hedge).

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria. Changes in the fair value of any such derivative instruments are recognised immediately in the profit or loss within 'Other operating income'.

3.21 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 best estimate of the expenditure required to settle any financial obligation arising at the reporting date. 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.

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3.22 Dividends on shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the 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.

3.23 Repurchase and resale 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 deposits from banks or deposits from 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.

3.24 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.

3.25 Foreign currencies

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

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

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income, except for non-monetary financial assets, such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.26 Directors' remuneration

The Directors' remuneration is governed as set out in the Articles of Association of the Bank, the Commercial Companies Law 2019 of the Sultanate of Oman and regulations issued by the Capital Market Authority.

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that the sitting fees for each director shall not exceed RO 10,000 in one year.

Also, the Article (133) of Public Joint Stock Companies Regulation state that the annual general meeting shall determine the directors' remuneration as follows:

1. Shall not exceed RO 300,000 for the company that realized net profits equal to or exceeding the profits realized in the previous financial year and has no accumulated losses or losses in the capital.

2. Shall not exceed RO 150,000 for the company that realized net profits less than the profits realized in the previous financial year and no losses in the capital.

3.27 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 year. 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.

3.28 Segment reporting

A segment is a distinguishable component of the Bank 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. The Bank currently operates only in the Sultanate of Oman. The Bank'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). The Bank's main business segments are corporate, retail banking and Islamic financing. Segmental information pertaining to Islamic Banking subsidiary is also disclosed in note 44.

3.29 Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a year of time in exchange for consideration.

Bank as a lessee

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

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Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented within note 12 and are subject to impairment in line with the Bank's policy as described in note 3.6 Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the year in which the event or condition that triggers the payment occurs.

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which they are earned.

As of 31 December 2021 and 2020, the Bank is not a lessor in any of the lease arrangements.

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

4. Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years. The Bank's significant accounting estimates were on:

4.1 Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by number of factors, changes in which can result in different levels of allowances.

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

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

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets in the Bank. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed yearically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in groups of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro-economic conditions.

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 possible consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the Bank and the relevant tax authority.

4.3 Going concern

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

4.4 Impact of COVID-19

Certain judgments were involved in determining the ECL impact of COVID-19 deferrals. For more information see Note 5.1.4.

4.5 Fair value of financial instruments

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

4.6 Determination of lease term

The Group considers all facts and circumstances when determining the lease term. Extension options (or years that fall after the termination options) are included in the lease term only if there is reasonable certainty that the lease will be extended (or not terminated). The Bank considers the enforceability and nature of the extension clause in the lease agreement, the value of leasehold improvements, penalties levied, costs and business disruptions that would occur, should a change of location occur as factors to determine the lease term. Lease term is reassessed if an option is exercised or not exercised or the Bank becomes obliged to exercise or not exercise. The assessment is only revisited if a significant event or a significant change in circumstances arises which affects this assessment and that is within the control of the Bank. During the year, the Bank has not revised its assessment of lease term as no significant changes or events occurred.

5. Financial risk management

Effective risk management is of primary importance for the Bank. The Bank's risk management process evaluates, monitors and manages the risks associated with the businesses the Bank conducts in line with the defined risk appetite. The principal types of risks that the Bank faces are credit risk, liquidity risk, market risk (price risk, interest rate risk and currency risk) and operational risk. The Board of Directors defines risk limits and sets suitable policies in this regard for management of credit risk, liquidity risk as well as market risk in both the trading and the banking book of the Bank. Risk Management is carried out by the Risk Management Department in accordance with documented policies approved by the Board of Directors.

A bank risk committee, comprising the Bank's most senior risk professionals, provides a forum for the review and approval of risk measurement methodologies, risk control processes and the approval of new products, including approval of LGDs and eligible collateral for ECL calculations. The Bank risk committee also reviews all risk policies and limits. The risk management control process is based on a detailed structure of policies, procedures and limits, and comprehensive risk measurement and management information systems for the control, monitoring and reporting of risks.

5.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities, investment activities and other assets in the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees.

Credit risk is one of the most significant risks for the Bank. The Bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman. Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The credit risk management and control are centralised in the credit risk management team which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Department while the Retail Banking Department manages the credit risk in the retail portfolio. The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators, expert credit assessment, guidelines issued by CBO and inclusion of forward-looking information. The Bank also, in limited circumstances and with proper justifications and specific approval from the Chief Risk Officer, does

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not treat certain events as significant increases in credit risk to continue classifying a financing exposure under Stage 1 (this is in line with CBO circular BM 1149). Besides assessing the qualitative characteristics, the Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004. In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification. Debt investment securities are considered to have low credit risk when their credit risk rating is equivalent to an investment grade rating or a debt investment security with similar credit risk characteristics. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in the probability of default (PDs) and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due and as a backstop based on delinquency.

Definition of default

The Bank considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the Bank to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

Incorporation of forward-looking information

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

Given the nature of the bank's exposures and availability of historical statistically reliable information, the bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category. The Bank links TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The methodology takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data, the asset correlation of each rating category, and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data.

Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

PD estimates are estimates at a certain date, and are calculated using the banks internal recovery data after consideration of the contractual maturities of exposures and estimated prepayment rates.

The PIT PD estimates are converted to cumulative PIT PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs. The lifetime PDs are calculated by compounding the 12-month PIT PDs.

LGD is the magnitude of the likely loss if there is a default. The bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. The Bank has applied a LGD of 0% on Government Development Bonds (GDB) & Treasury Bills (T-Bills) issued by Government of Oman which are classified as investments under amortised cost. The Bank has also applied a LGD of 0% on loans, advances and financing to customers aggregating to RO 91,390 thousand (Consolidated), RO 20,726 thousand (Parent); (2020: RO 89,490 thousand (Consolidated), RO 64,490 thousand (Parent) as of 31 December 2021 which are guaranteed by the Government of Oman or collateralized by way of bank deposits / cash margin.

EAD represents the expected exposure in the event of a default. The bank derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the bank measures ECL considering the risk of default over the maximum contractual year over which it is exposed to credit risk. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Bank calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario. At 31 December 2021, the probabilities assigned to the base case, negative case and positive case scenarios were in the ratio of 50%:25%:25% (2020: 50%:25%:25%) respectively.

Credit risk profile

The Bank monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a certain rating scale. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The internal ratings map as follows:

Internal rating grade	**Internal classification**
Rating grade 1	High
Rating grade 2	High
Rating grade 3	High
Rating grade 4	High
Rating grade 5	High
Rating grade 6	Standard
Rating grade 7	Standard
Rating grade 8	Standard
Rating grade 9	Standard
Rating grade 10	Satisfactory
SM	Satisfactory
Classified	
SS	Sub-standard
DD	Doubtful
LS	Loss

The credit risk profile, based on internal credit ratings, was as follows:

2021 Consolidated	Due from banks OMR '000	Investment securities OMR '000	Loans and advances including interest receivable OMR '000	Credit related contingent items including acceptances OMR '000
Stage 1 (12-month ECL)				
High	**26,432**	**-**	**583,812**	**218,576**
Standard	**24,614**	**296,303**	**1,250,602**	**337,868**
Satisfactory	**-**	**-**	**385,505**	**208,988**
Gross Carrying amount	51,046	296,303	2,219,919	765,432
Stage 2 (Lifetime ECL but not credit-impaired)				
High	**-**	**-**	**21,169**	**34,463**
Standard	**-**	**-**	**143,168**	**40,661**
Satisfactory	**-**	**-**	**418,041**	**59,602**
Gross Carrying amount	**-**	**-**	**582,378**	**134,726**
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	**-**	**-**	**2,728**	**970**
Doubtful	**-**	**-**	**12,275**	**50**
Loss	**-**	**-**	**123,023**	**4,542**
Gross Carrying amount	**-**	**-**	**138,026**	**5,562**

Provisions for impairment are as below:

2021 Consolidated	Due from banks OMR '000	Investment securities OMR '000	Loans and advances including interest receivable OMR '000	Credit related contingent items including acceptances OMR '000
Stage				
Stage 1	74	282	9,215	551
Stage 2	-	-	41,959	358
Stage 3	-	-	89,849	2,488
Total	**74**	**282**	**141,023**	**3,397**

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2021 Parent Company	Due from banks OMR '000	Investment securities OMR '000	Loans and advances including interest receivable OMR '000	Credit related contingent items including acceptances OMR '000
Stage 1 (12-month ECL)				
High	26,432	-	581,671	218,576
Standard	28,121	233,832	562,404	234,337
Satisfactory	-	-	347,492	172,097
Gross Carrying amount	**54,553**	**233,832**	**1,491,567**	**625,010**
Stage 2 (Lifetime ECL but not credit-impaired)				
High	-	-	21,169	34,463
Standard	-	-	92,252	38,009
Satisfactory	-	-	374,405	59,601
Gross Carrying amount	**-**	**-**	**487,826**	**132,073**
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	2,090	970
Doubtful	-	-	5,547	40
Loss	-	-	98,890	4,310
Gross Carrying amount	**-**	**-**	**106,527**	**5,320**

Provisions for impairment are as below:

2021 Parent Company	Due from banks OMR '000	Investment securities OMR '000	Loans and advances including interest receivable OMR '000	Credit related contingent items including acceptances OMR '000
Stage				
Stage 1	73	276	7,311	323
Stage 2	-	-	31,840	138
Stage 3	-	-	64,912	2,408
Total	**73**	**276**	**104,063**	**2,869**

In 2021, the Bank reclassified the provisions related to un-funded exposure from loans and advances provisions to other liabilities, with no impact on the income statement. Prior year amounts have been revised to conform with the current presentation.

2020 Consolidated	Due from banks OMR '000	Investment securities OMR '000	Loans and advances including interest receivable OMR '000	Credit related contingent items including acceptances OMR '000
Stage 1 (12-month ECL)				
High	69,690	-	536,191	208,596
Standard	3,189	235,069	1,249,134	277,915
Satisfactory	-	-	246,821	162,226
Gross Carrying amount	72,879	235,069	2,032,146	648,737
Stage 2 (Lifetime ECL but not credit-impaired)				
High	-	-	28,133	54,984
Standard	-	-	208,418	85,374
Satisfactory	-	-	393,365	163,801
Gross Carrying amount	-	-	629,916	304,159
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	26,153	5
Doubtful	-	-	13,803	132
Loss	-	401	79,174	3,976
Gross Carrying amount	-	401	119,130	4,113

Provisions for impairment are as below:

2020 Consolidated	Due from banks OMR '000	Investment securities OMR '000	Loans and advances including interest receivable OMR '000	Credit related contingent items including acceptances OMR '000
Stage				
Stage 1	41	67	9,820	217
Stage 2	-	-	29,825	219
Stage 3	-	403	62,691	1,733
Total	41	470	102,336	2,169

2020 Parent Company	Due from banks OMR '000	Investment securities OMR '000	Loans and advances including interest receivable OMR '000	Credit related contingent items including acceptances OMR '000
Stage 1 (12-month ECL)				
High	67,902	-	353,194	191,346
Standard	3,189	171,975	848,023	278,259
Satisfactory	-	-	222,986	97,530
Gross Carrying amount	71,091	171,975	1,424,203	567,135
Stage 2 (Lifetime ECL but not credit-impaired)				
High	-	-	2,865	54,965
Standard	-	-	169,006	84,459
Satisfactory	-	-	337,371	161,337
Gross Carrying amount	-	-	509,242	300,761
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	24,565	-
Doubtful	-	-	4,440	60
Loss	-	-	64,265	3,821
Gross Carrying amount	-	-	93,270	3,881

Provisions for impairment are as below:

2020 Parent Company	Due from banks OMR '000	Investment securities OMR '000	Loans and advances including interest receivable OMR '000	Credit related contingent items including acceptances OMR '000
Stage				
Stage 1	40	67	7,169	193
Stage 2	-	-	19,534	181
Stage 3	-	-	43,610	1,563
Total	40	67	70,313	1,937

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Economic variable assumptions

The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as at 31 December 2021.

2021

Key drivers	ECL scenario and assigned weightage	2021	2022	2023	2024	2025
GDP growth (% change)	Base (50%)	-0.83%	-4.37%	1.23%	2.93%	2.79%
	Upside (25%)	4.46%	-0.85%	3.00%	2.93%	2.79%
	Downside (25%)	-3.39%	-6.08%	0.38%	2.93%	2.79%
Oil revenue (%GDP)	Base (50%)	20.04%	30.74%	31.18%	26.71%	26.71%
	Upside (25%)	37.31%	42.25%	36.95%	26.71%	26.71%
	Downside (25%)	11.66%	25.15%	28.38%	26.71%	26.71%

2020

Key drivers	ECL scenario and assigned weightage	2020	2021	2022	2023	2024
GDP growth (% change)	Base (50%)	1.80%	0.60%	-5.30%	2.95%	3.41%
	Upside (25%)	6.81%	5.63%	3.91%	4.00%	4.10%
	Downside (25%)	2.06%	2.06%	2.06%	2.09%	2.83%
Oil revenue (%GDP)	Base (50%)	19.56%	12.22%	13.67%	27.84%	29.65%
	Upside (25%)	43.15%	38.49%	31.63%	32.02%	32.41%
	Downside (25%)	24.30%	24.30%	24.30%	24.43%	27.36%

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

5.1.1 Risk mitigation policies

The Bank manages limits and controls concentrations of credit risk – in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed yearically by the Management Credit Committee, Audit and Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

a. Collateral

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

- charges over business assets such as premises, inventory and accounts receivable
- lien on fixed deposits
- cash margins
- mortgages over residential and commercial properties
- pledge of marketable shares and securities

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are generally unsecured. Additionally, in order to minimise the credit loss the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

b. Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The relationship managers remain in close contact with the borrowers. The Bank assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Risk Management Department.

c. Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The concentration of credit related commitments by industry sector at the year-end is set out in Note 40(a).

An analysis of the loans and advances for which collaterals or other credit enhancements are held is as follows:

2021 Consolidated	Performing loans (neither past due nor impaired) OMR '000	Loans past due and not impaired OMR '000	Non performing loans OMR '000	Total OMR '000
Loans and advances with collateral available	901,166	213,560	50,371	1,165,097
Loans and advances with guarantees available	448,866	57,534	12,478	518,878
Balance as at 31 December 2021	1,350,032	271,094	62,849	1,683,975
Percentage of exposure with collateral and guarantees	54%	98%	46%	58%

2021 Parent Company	Performing loans (neither past due nor impaired) OMR '000	Loans past due and not impaired OMR '000	Non performing loans OMR '000	Gross Loans OMR '000
Loans and advances with collateral available	605,836	157,266	27,689	790,791
Loans and advances with guarantees available	380,693	56,633	7,588	444,914
Balance as at 31 December 2021	986,529	213,899	35,277	1,235,705
Percentage of exposure with collateral and guarantees	57%	99%	33%	60%

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

	Consolidated		Parent Company	
	2021 OMR '000	2020 OMR '000	2021 OMR '000	2020 OMR '000
Items on the statement of financial position				
Cash and balances with Central Bank of Oman	**188,904**	220,975	**105,954**	173,652
Due from banks	**51,046**	72,879	**54,553**	71,091
Loans and advances				
Corporate loans	**1,807,193**	1,704,836	**1,329,130**	1,284,640
Personal loans	**1,087,264**	1,042,859	**735,944**	722,479
Other assets	**80,236**	69,129	**53,064**	46,222
GDBs and Government Sukuk	**264,405**	221,739	**205,236**	162,589
Corporate bonds	**31,898**	13,731	**28,596**	9,386
Other investments	**6,475**	5218	**6,475**	4,792
	3,517,421	3,351,366	**2,518,952**	2,474,851
Off-Balance sheet items				
Letters of credit	**163,773**	77,600	**83,165**	73,635
Guarantees	**213,284**	251,150	**187,629**	221,837
Financial guarantees	**74,126**	141,928	**74,126**	107,220
	451,183	470,678	**344,920**	402,692

5.1.3 Loans and advances and due from banks

a. Loans and advances and due from banks are summarised as follows:

2021 Consolidated	Loans and advances to customers OMR '000	Due from banks OMR '000	Total OMR '000
Neither past due nor impaired	1,913,967	51,046	1,965,013
Special mention loans	565,103	-	565,103
Past due but not impaired	277,361	-	277,361
Impaired	**138,026**	-	**138,026**
Gross loans and advances	2,894,457	51,046	2,945,503
Less: expected credit loss	(141,023)	(74)	(141,097)
Net loans and advances and due from banks	2,753,434	50,972	2,804,406

2021 Parent Company	Loans and advances to customers OMR '000	Due from banks OMR '000	Total OMR '000
Neither past due nor impaired	1,254,487	54,553	1,309,040
Special mention loans	488,786	-	488,786
Past due but not impaired	215,274	-	215,274
Impaired	106,527	-	106,527
Gross loans and advances	2,065,074	54,553	**2,119,627**
Less: expected credit loss	(104,063)	(73)	**(104,136)**
Net loans and advances and due from banks	1,961,011	54,480	2,015,491

2020 Consolidated	Loans and advances to customers OMR '000	Due from banks OMR '000	Total OMR '000
Neither past due nor impaired	1,823,584	72,879	1,896,463
Special Mention loans	543,672	-	543,672
Past due but not impaired	261,309	-	261,309
Impaired	119,130	-	119,130
Gross loans and advances	2,747,695	72,879	2,820,574
Less: expected credit loss	(102,336)	(41)	(102,377)
Net loans and advances and due from banks	2,645,359	72,838	2,718,197

2020 Parent Company	Loans and advances to customers OMR '000	Due from banks OMR '000	Total OMR '000
Neither past due nor impaired	1,224,593	71,091	1,295,684
Special Mention loans	484,220	-	484,220
Past due but not impaired	205,036	-	205,036
Impaired	93,270	-	93,270
Gross loans and advances	2,007,119	71,091	2,078,210
Less: expected credit loss	(70,313)	(40)	(70,353)
Net loans and advances and due from banks	1,936,806	71,051	2,007,857

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b. The break-up of the loans and advances to customers in respect of the risk ratings adopted by the Bank are:

2021 Consolidated	Retail loans OMR '000	Corporate loans OMR '000	Total OMR '000
Standard loans (1-10)	1,059,605	1,131,723	**2,191,328**
Special mention loans	7,184	557,919	**565,103**
Substandard loans	1,071	1,657	**2,728**
Doubtful loans	3,193	9,082	**12,275**
Loss	16,187	106,836	**123,023**
	1,087,240	**1,807,217**	**2,894,457**
Parent Company			
Standard loans (1-10)	716,863	752,898	**1,469,761**
Special mention loans	1,666	487,120	**488,786**
Substandard loans	863	1,227	**2,090**
Doubtful loans	2,745	2,802	**5,547**
Loss	13,807	85,083	**98,890**
	735,944	**1,329,130**	**2,065,074**

2020 Consolidated	Retail loans OMR '000	Corporate loans OMR '000	Total OMR '000
Standard loans (1 – 10)	1,010,790	1,074,057	2,084,847
Special mention loans	8,455	535,263	543,718
Substandard loans	2,209	23,945	26,154
Doubtful loans	5,202	8,601	13,803
Loss	16,203	62,970	79,173
	1,042,859	1,704,836	2,747,695
Parent Company			
Standard loans (1-10)	702,680	726,949	1,429,629
Special mention loans	1,886	482,334	484,220
Substandard loans	979	23,586	24,565
Doubtful loans	4,225	215	4,440
Loss	12,710	51,555	64,265
	722,480	1,284,639	2,007,119

c. Age analysis of loans and advances past due but not impaired is set out below:

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Past due up to 30 days	**129,418**	80,551	**99,502**	67,535
Past due 30-60 days	**97,634**	112,468	**71,052**	89,577
Past due 60-90 days	**50,309**	68,741	**44,720**	47,924
Total	**277,361**	261,760	**215,274**	205,036

5.1.4 CBO COVID related disclosures

5.1.4.1 Outbreak of Coronavirus (COVID-19)

The World Health Organization officially declared COVID-19 as a global pandemic on 11 March 2020. The pandemic has continued to affect the economic environment and business landscape of the banks. The businesses witnessed rapid changes as a result of the unprecedented outbreak of Coronavirus pandemic witnessing stress on revenues & delay in servicing debts. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries & sectors. The impact on the economy has receded in the second half of 2021 with opening of the economy because of the drive to increase the penetration of vaccines.

5.1.4.2 Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc., suspension of assessment of Significant Increase in Credit risk (SICR). These measures have been extended until 31 December 2021.

5.1.4.3 Impact of COVID-19 on the Bank

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration is given to both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, has not automatically led to loans being measured on the basis of lifetime losses. . The measurement of ECL is based on the models with respect to probability of default, Loss Given Default and Exposure at default, when it is not possible to reflect all relevant information in the models, post-model overlays or adjustments are considered. This is also broadly consistent with guidelines issued by other regulators including those issued by the CBO.

Additional IFRS 9 guidelines issued by the CBO stipulates:

- CBO's measures related to deferment of loan repayment by a borrower may not on its own trigger the counting of 30 DPD or more backstop used to determine SICR or the 90 days past due backstop used to determine default. However, banks shall continue to assess the obligor's likelihood of payment of amount due after the deferment year, and in case of SICR or credit impairment and if the same is not of a temporary nature, accordingly fairly recognize such risk.
- The deferment of repayment by borrowers may indicate short term liquidity or cash flow problems and hence the deferment of loan repayment may not be a sole deciding factor for SICR or impairment until and unless banks and FLC's might have experienced other supportable evidence on having deterioration in the credit quality of the obligor.
- Similarly, any covenant breach having particular relevance to Covid-19 e.g. delay in submission of audited financial accounts or any other breach, may be considered differently than normal breaches related to consistent borrower specific risk factors leading to borrowers default. This sort of breach may not necessarily and automatically trigger SICR resulting in moving accounts to Stage-2.
- Bank has developed estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions consideration is given both to the effects of Covid-19 coupled with oil prices & significant CBO policy measures being undertaken.
- Nevertheless, any changes made to ECL estimate the impact of Covid-19 distress will be subject to very high levels of uncertainty as reasonable and supportable forward-looking information may not be currently available to substantiate those changes. As such, the macro-economic forecasts applied by the Bank in the IFRS 9/ECL models cannot be recalibrated upfront with pre-mature effects of Covid-19 and CBO support measures, besides the individual and collective LGD's may get impacted due to Covid-19 effect on market prices of collateral and guarantees.
- The IFRS 9 Steering Committee of the Bank is primarily responsible for overseeing the Bank's adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors. SME customers are evaluated based on the stability of the business owner and business and any short term cash flow mismatches are supported by the Bank.

A considerable portion of Bank's retail portfolio comprises of Omani nationals employed in government sector. This retail segment is expected to largely remain shielded from job cuts and salary reductions. Retail lending to private sector employees is expected to witness impact of economic meltdown in the short to medium term due to the pandemic and hence could lead to potential credit issues. The Bank is fully committed to help its customers through these turbulent year as directed by the CBO. The Bank continues to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic. The Bank continually reviews its precautionary and administrative measures in response to changes on the ground.

5.1.4.4 Impact on SICR

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

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5.1.4.5 Impact on ECL

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Bank expects that post-model adjustments will be applied for the foreseeable future.Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December 2021 are set out as follows: As at 31 December 2021, date the collective provision held by the Bank through management overlays amounts to RO 22,652 thousand (consolidated), RO 14,110 thousand (Parent Company) [2020: RO 7,164 thousand (consolidated), RO 4,125 thousands (Parent Company)] which are specifically allocated to certain stressed parties. The Bank will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected year.

5.1.4.6 PMAs and management overlays:

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

In determining above, the management has considered following assumptions at Group level:
- Oil revenue as per percentage of GDP 18.0% (2020: 13.2%)
- Real GDP growth 1.2% (2020:-4.4%)

Following are the scenario weightage considered by the Bank at Group level:
- Scenario weightings of 50%, 25%, 25% for Base, Downside and Upside scenarios (31 December 2020: 50%, 25%, 25%);

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

	Consolidated		Parent Company	
	At 31 December 2021		At 31 December 2021	
Sensitivity of impairment estimates	Impact on ECL OMR '000's	Impact on ECL OMR '000's	Impact on ECL OMR '000's	Impact on ECL OMR '000's
ECL on non-impaired loans under IFRS9	**28,522**	-	**24,835**	-
Simulations				
Upside case - 100% weighted	**14,900**	**13,622**	**13,208**	**11,627**
Base case - 100% weighted	**29,419**	**(897)**	**25,614**	**(779)**
Downside scenario - 100% weighted	**40,353**	**(11,831)**	**34,906**	**(10,071)**

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5.1.4.7 Accounting for modification loss:

In case of corporate customers, the Company has added the simple interest accrued during the deferral period (DP) to a separate facility and either extend the original maturity year of the loan or increase the instalments at the end of the DP. The Company has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures did not result in derecognition of financial assets. Further, the impact of day one modification loss was not considered material for the year.

5.1.4.8 Stage-wise analysis of customers benefiting from payment deferrals

The following table provides the deferred portfolio pertinent to loans, advances and Islamic financing for customers provided with such benefits, and the related ECL. The restructured/ rescheduled loans implemented as per CBO circular BSD/CB & FLCs/2021/004 dated 18 November 2021 - window for restructuring/ rescheduling of credit facilities for affected customers are also disclosed in the following table:

2021 Consolidated	Stage 1	Stage 2	Stage 3	Total
Loans and Advances and Islamic financing receivables	289,079	266,567	5,862	561,508
Off balance sheet exposures	7,132	17,445	-	24,577
Total exposure to customers benefiting from payment deferrals	**296,211**	**284,012**	**5,862**	**586,085**
Of which:				
Total deferred amount *	**232,822**	**148,303**	**5,490**	**386,615**
Total ECL on exposure to customers benefiting from payment deferrals	1,559	12,810	4,573	**18,942**
Of which:				
ECL on deferred amount	964	7,325	4,435	**12,724**
Net carrying deferred amount	**231,858**	**140,978**	**1,055**	**373,891**

2021 Parent Company	Stage 1	Stage 2	Stage 3	Total
Loans and advances	138,088	183,276	399	**321,763**
Off balance sheet exposures	7,132	17,445	-	**24,577**
Total exposure to customers benefiting from payment deferrals	**145,220**	**200,721**	**399**	**346,340**
Of which:				
Total deferred amount *	**101,563**	**65,373**	**27**	**166,963**
Total ECL on exposure to customers benefiting from payment deferrals	922	6,476	148	**7,546**
Of which:				
ECL on deferred amount	410	1,018	10	**1,438**
Net carrying deferred amount	**101,153**	**64,355**	**17**	**165,525**

* The deferred amount as of 31 December 2021 include deferred interest of RO 35,376 (consolidated) and RO 21,572 thousand (Parent Company).

The table below provides the restructured/rescheduled loans implemented under the CBO regulations (window for restructuring/rescheduling of credit facilities for affected customers):

2021 Consolidated	Stage 1	Stage 2	Stage 3	Total
Loans, advances and Islamic financing receivables restructured under CBO window	10,217	45,580	-	**55,797**
ECL as per IFRS 9	169	3,777	-	**3,946**
ECL required as per CBO Circular under restructuring window	153	2,843	-	**2,996**

2021 Parent Company	Stage 1	Stage 2	Stage 3	Total
Loans and advances restructured under CBO window	-	30,921	-	**30,921**
ECL as per IFRS 9	-	2,460	-	**2,460**
ECL required as per CBO Circular under restructuring window	-	1,890	-	**1,890**

5.1.4.9 Impact on the Capital Adequacy

The Bank raised Additional Tier 1 capital denominated in USD and listed on London Stock Exchange to the tune of RO 96.250 million (USD 250 million). Besides, the Bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. The impact of the above filter on the bank's regulatory capital is 38 bps [Parent Company: 45 bps].

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

5.1.5 Loans and advances renegotiated

These arrangements include extended payment arrangements, deferral of payments and modification of interest rates. Following restructuring, a previously past due loan account is reclassified as a normal loan and

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managed with other similar loans which are neither past due nor impaired. The restructuring arrangements are based on the criteria and indicators which in the judgement of the management will indicate that the payment will most likely continue.

The total restructured loans at 31 December 2021 amounted to RO 231,360 thousand (consolidated), RO 175,644 thousand (Parent Company); [2020: RO 179,681 thousand (consolidated), RO 140,844 thousand (Parent Company)].

5.1.6 Debt securities

The Bank's investments in debt securities are mainly in Government Development Bonds / Sukuks or treasury bills denominated in Rial Omani issued by the Government of Oman. The Bank also invests in debt securities issued by foreign sovereigns / omani Public sector enterprises based on their individual external credit rating. These investments are made to deploy the surplus liquid funds with maximum return.

5.2 Market risk

The Bank takes on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates. The market risks are monitored by the Treasury Division and the Risk Management Department. Management is confident that the Bank has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macroeconomic indicators affecting the banking business.

5.2.1 Price risk

The Bank holds listed securities classified as held-for-trading and held to collect and sale to take advantage of short-term capital market movements and manage liquidity. All investment securities present a risk of loss of capital. The Bank controls this risk through a careful selection of securities in accordance with Investment Management Policy approved by the Board. The maximum risk resulting from financial instruments is determined by the carrying amount of the financial instruments. The Bank's market positions are reviewed yearically by the management.

Bank's investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The Bank's equity and total comprehensive income at 31 December 2021 may decrease by 0.03% (2020 – 3.6%) due to decrease by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant. The subsidiary has no investment in equity securities publically traded on MSM.

5.2.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given year. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as its assets and liabilities are aligned for re-pricing in line with the risk appetite. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate with the objective of limiting the potential adverse effects on the Bank's profitability. The table in Note 41 summarises the Bank's exposure to the interest rate risks. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

For managing its interest rate risk in the banking book the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also monthly calculates Earnings at Risk (EaR) impact on its projected Net Interest Income (NII) from 50/100/200bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the current year. The EAR at 31 December 2021 is 2.9% (2020 – 2.6%).

Interest rate benchmark reforms

Interbank offered rates ("IBORs"), such as the London Interbank Offered Rate ("LIBOR"), plays a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

The majority of LIBOR and other Interbank Offer Rates ("IBORs") are expected to be discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates were cessation may be delayed until 30 June 2023.

Central Bank of Oman wide it's circular No: SDD/CBS/FLCs/CB/2021/3565 dated 09 December, 2021 has specified that Bank(s) should stop entering into new financial contracts with LIBOR as the reference rate and instead identify and use any widely accepted Alternative Reference Rate (ARR), in respect of each currency, with immediate effect.

The Bank's system has been updated to enable lending linked to these ARR/RFRs and the time-line for transition is as mentioned below:

- Starting January 01, 2022. All new floating rates loans as well as associated derivative deals as executed by the Bank will based on ARR e.g. for USD it will be based on SOFR (Secured Overnight Financing Rate)
- Loans which reference USD Libor and which will remain outstanding post 2021 may continue unchanged, as USD Libor will continue to be published until the Q2 2023.
- Any remaining loans in USD only which reference USD Libor must mature or will be migrated away from using Libor before June 30th 2023, ideally on the final interest reset day prior to this date.

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5.2.3 Currency risk

Currency risk arises when the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Bank enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors.

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and approved by the Executive Committee of the Board and entering into forward contracts based on the underlying commercial transactions with the customers.

Net foreign currency exposure

	Consolidated		**Parent Company**	
	31-Dec-2021 OMR '000	31-Dec-2020 OMR '000	**31-Dec-2021 OMR '000**	31-Dec-2020 OMR '000
USD	**30,357**	5,204	**4,685**	295
AED	**421**	760	**143**	649
GBP	**30**	53	**12**	50
Others	**1,399**	1,641	**1,176**	1,537
	32,207	7,658	**6,016**	2,531

Oman operates with a fixed exchange rate, and the Omani Rial is pegged to the USD at $2.5975 per Omani Rial.

5.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced.

The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy. The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table in Note 41 represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the reporting date.

The lending ratio is a regulatory ratio which considers total loans and advances to customer deposits and capital. This ratio is monitored on daily basis and reported on monthly basis as per CBO guidelines. The Bank has internally set a conservative lending ratio benchmark which is lower than CBO lending ratio.

The maximum permissible lending ratio as at 31 December 2021 was 92.5% (2020: 92.5%). In the COVID-19 stimulus package announce by CBO the maximum limit of this ratio was extended to 92.5% from 87.5%.

The Bank has reported following lending ratio for the year:

	Parent Company	
	2021	2020
Year end	**82.83%**	80.1%
Maximum for the year	**89.06%**	89.9%
Minimum for the year	**79.37%**	76.7%
Average for the year	**83.65%**	84.6%

5.4 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events. The risk is associated with human error, systems failure, inadequate procedures or controls and external causes. Losses from external events such as a natural disaster that has a potential to damage the Bank's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Bank's specific products and business lines; they are more specific to the Bank's operations than the risks due to external events. Operational risks faced by the Bank include IT Security, telecom failure, frauds, and operationalerrors.

Operational risk governance is set through policies, processes, procedures and oversight of executive committee. The Bank cannot eliminate all operational risks, however, the operational risk framework is set to identify, assess, monitor and control the risks through the three lines of defences. It yearically conducts various assessment's to review risk exposures and implements controls to mitigate the operational risk profile, in accordance with the overall risk appetite. To ensure effective controls and building risk culture, operational risk awareness is scheduled annually across the Bank. Insurance is another tool used as an operational risk mitigant. Insurance coverage such as Bankers' Blanket Bond (BBB), Professional Indemnity, cyber security, etc aim to protect the bank from high severity risks by reducing the financial impact. During the year 2020, the Bank incurred operational loss as disclosed in note 34.

Management risk committee

The Management Risk committee is the main committee for Bank's major risk including operational risk. The committee is composed of main business and control functions. The objectives of the committee is to review and oversee the Bank's risk profile and to put in place actions required to maintain the risk profile within the approved appetite.

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Business Continuity Management (BCM)

Business Continuity Plan addresses the inherent risks, which may lead to unexpected business interruptions. The goal of BCM is to provide the ability to effectively respond to threats to protect the business interests and continue to operate following a significant unplanned event or major operational disruption. As a part of Crisis Communication and Business Continuity Management processes, OAB has taken initiatives and proactive measures in meeting the contingency requirements always and especially during COVID-19. The Bank has taken proactive steps considering the pandemic scenario in its BCP. The bank has ensured the resilience to run the business critical processes during such contingency situation with the effective process in place and the management support. The Bank has a Disaster Recovery Site and remote working set up to meet any unforeseen disaster and maintain operational continuation in such event. The Bank has conducted various BCP requirement like Business Impact assessments, evacuation drills, tests (announced and unannounced) call tree, and spread awareness.

Information Security

Information Security is an essential component of risk management. The Bank seeks to avoid risk and uncertainty for its critical information assets and systems affecting operations and reputation of the bank. Information security governance set up is in place through security policies & procedures. The Bank has invested to implement robust security infrastructure and is conducting yearic vulnerability assessments to ensure the security of the systems.

5.5 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to management as at 31 December 2021. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted in deriving the fair values are as follows:

5.5.1 Current account balances due to and from banks

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

5.5.2 Loans and advances

The fair value of non-performing loans approximates to the book value adjusted for allowance for loan impairment. For the performing loans, the fair value is taken as being equivalent to its carrying amount as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates and loan rates are reset at frequent intervals to align the rate with market conditions.

5.5.3 Investments at fair value through profit or loss

Quoted market prices, when available, are used as the measure for fair value. However, when the quoted market prices do not exist, fair value presented is estimated using discounted cash flow models or other valuation techniques. Changes in fair value resulting from these calculations are not material to the financial statements. Details are set out in note 10.

5.5.4 Customers' deposits

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

5.5.5 Derivatives

The Bank usually enters into short term forward foreign exchange contracts, on behalf of its customers for the sale and purchase of foreign currencies. For forward foreign exchange contracts, it uses a valuation model with readily available market observable inputs. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

5.6 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

2021 Assets as per statement of financial position	Fair value through profit or loss (FVTPL) OMR '000	Amortized costs (AC) OMR '000	Fair value through other comprehensive income (FVOCI) OMR '000	Total OMR '000
Consolidated				
Bank balances and cash	-	188,904	-	**188,904**
Due from banks	-	50,972	-	**50,972**
Loans, advances & financing activities	-	2,753,484	-	**2,753,484**
Investment securities	473	213,233	88,790	**302,496**
Other assets	-	80,236	-	**80,236**
	473	**3,286,779**	**88,790**	**3,376,042**
Parent Company				
Bank balances and cash	-	105,954	-	**105,954**
Due from banks	-	54,480	-	**54,480**
Loans, advances & financing activities	-	1,961,011	-	**1,961,011**
Investment securities	473	195,138	44,420	**240,031**
Other assets	-	53,064	-	**53,064**
	473	**2,369,647**	**44,420**	**2,414,540**

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2020 Assets as per statement of financial position	Fair value through profit or loss (FVTPL) OMR '000	Amortized Costs (AC) OMR '000	Fair value through other comprehensive income (FVOCI) OMR '000	Total OMR '000
Consolidated				
Bank balances and cash	-	220,975	-	220,975
Due from banks	-	72,838	-	72,838
Loans and advances & Financing activities	-	2,645,359	-	2,645,359
Investment securities	403	193,175	46,640	240,218
Other assets	-	69,129	-	69,129
	403	3,201,476	46,640	3,248,519
Parent Company				
Bank balances and cash	-	173,652	-	173,652
Due from banks	-	71,051	-	71,051
Loans and advances & Financing activities	-	1,936,806	-	1,936,806
Investment securities	403	171,908	4,389	176,700
Other assets	-	46,222	-	46,222
	403	2,399,639	4,389	2,404,431

The accounting policies for financial instruments have been applied to the line items below:

Financial liabilities as per statement of financial position

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Due to banks	**13,359**	14,421	**13,359**	10,571
Deposits from customers	**2,810,412**	2,755,310	**1,965,197**	2,030,762
Other liabilities	**82,020**	74,296	**63,586**	57,357
Subordinated loan	**-**	20,000	**-**	20,000
	2,905,791	2,864,027	**2,042,142**	2,118,690

6. Capital management

The Bank's objectives of capital management are:

- to comply with the capital requirements set by the regulator i.e. the Central Bank of Oman;
- to safeguard the Bank's ability to continue as a going concern while providing adequate returns to the shareholders; and
- to maintain a strong capital base to support the development of its business.

The principal objective of the CBO capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a Bank's statement of financial position, in particular credit risk. The CBO's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements (BIS).

CBO requires the registered banks in the Sultanate of Oman to maintain minimum capital adequacy of 12 per cent based on letter BSD/2018/1 dated 20 March 2018. Additionally, the CAR threshold requires a capital conservation buffer (CCB) of 2.5 per cent annually in addition to a 1 per cent of prompt corrective action. However the circular BSD/CB/2020/001 dated 18 March 2020, relaxed the CCB requirements to 1.25 per cent and accordingly the minimum capital adequacy requirement has been reduced respectively.

	Consolidated		Parent Company	
	31-Dec-21 OMR '000	31-Dec-20 OMR '000	31-Dec-21 OMR '000	31-Dec-20 OMR '000
Capital				
Common Equity Tier 1 (CET 1)	**333,030**	336,995	**234,117**	241,265
Additional Tier 1	**163,803**	72,553	**163,803**	72,553
Total Tier 1	**496,833**	409,548	**397,920**	313,818
Tier 2	**29,443**	25,234	**24,508**	18,078
Total capital base	**526,276**	434,782	**422,428**	331,896
Risk weighted assets				
Credit risk	**2,718,921**	2,600,029	**2,080,951**	1,997,015
Market risk	**39,376**	18,200	**13,188**	13,075
Operational risk	**207,336**	201,908	**166,650**	165,275
Total risk weighted assets	**2,965,633**	2,820,137	**2,260,789**	2,175,365
Capital adequacy ratio %	**17.75%**	15.42%	**18.68%**	15.26%
CET 1 ratio	**11.23%**	11.95%	**10.35%**	11.09%
Tier 1 Capital ratio	**16.75%**	14.52%	**17.60%**	14.43%

The Tier 1 capital consists of paid-up capital, reserves, subordinated loans reserves and perpetual bonds. The Tier 2 capital consists of the ECL on stage 1 and stage 2 exposures in line with the circular BSD/CB/FLC/2019/17 and BSD/CB/2020/005.

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7. Cash and balances with the Central Bank of Oman

	Consolidated		Parent Company	
	31-Dec-21 OMR '000	31-Dec-20 OMR '000	31-Dec-21 OMR '000	31-Dec-20 OMR '000
Cash in hand	**32,735**	39,892	**25,900**	31,165
Balances with the Central Bank of Oman:				
- Clearing account	**155,144**	132,125	**79,554**	99,637
- Placements	**-**	47,933	**-**	42,350
- Capital deposit	**1,025**	1,025	**500**	500
	188,904	220,975	**105,954**	173,652

- The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The capital deposit earns an annual interest at 1.5% (2020:1.5%) for the Parent Company. CBO does not pay any interest to the Islamic Banks in Oman, therefore, no such interest was earned by the Subsidiary during the year.
- During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves was RO 79 million (Consolidated), RO 58 million (Parent Company); [2020: RO 69 million (Consolidated), RO 58 million (Parent Company)].
- Cash and balances with Central Bank is classified under stage 1 as per IFRS 9. However, there are no expected credit losses and hence no provision has been recognised.

8. Due from banks

	Consolidated		Parent Company	
	31-Dec-21 OMR '000	31-Dec-20 OMR '000	31-Dec-21 OMR '000	31-Dec-20 OMR '000
Placements	**29,902**	33,000	**35,677**	33,000
Current accounts	**21,144**	39,879	**18,876**	38,091
Due from banks and other money market placements	**51,046**	72,879	**54,553**	71,091
Less: allowance for credit losses	**(74)**	(41)	**(73)**	(40)
	50,972	72,838	**54,480**	71,051

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

	Consolidated		Parent Company	
	31-Dec-21 OMR '000	31-Dec-20 OMR '000	31-Dec-21 OMR '000	31-Dec-20 OMR '000
Balance at the beginning of the year	**41**	190	**40**	169
Acquisition related adjustments	**-**	1	**-**	-
Charge / (release) during the year	**33**	(150)	**33**	(129)
Balance at the year	**74**	41	**73**	40

At 31 December 2021, 65% (2020: 61%) of the Bank's placements were with four (2020: one) bank(s) rated in the range of A1 to Baa2 (2020: Aa3 to Baa3) and 18% (2020: 39%) of the placements were with Oman Housing Bank SAOC, which is owned by Government.

The credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and the year-end staging classification is disclosed in note 5 to the financial statements.

9. Loans, advances and financing to customers

	Consolidated		Parent Company	
	31-Dec-21	31-Dec-20	31-Dec-21	31-Dec-20
	OMR '000	OMR '000	OMR '000	OMR '000
Corporate loans				
Term loans	**1,149,247**	1,091,803	**1,149,247**	1,091,803
Overdrafts	**137,630**	139,265	**137,630**	139,265
Bills discounted	**42,253**	53,572	**42,253**	53,572
Islamic finance	**478,063**	420,196	**-**	-
	1,807,193	1,704,836	**1,329,130**	1,284,640
Personal loans				
Consumer loans	**396,536**	402,871	**396,536**	402,871
Mortgage loans	**333,744**	314,161	**333,744**	314,161
Overdrafts	**1,986**	1,830	**1,986**	1,830
Credit cards	**3,678**	3,617	**3,678**	3,617
Islamic finance	**351,320**	320,380	**-**	-
	1,087,264	1,042,859	**735,944**	722,479
Gross Loans, advances and financing to customers	**2,894,457**	2,747,695	**2,065,074**	2,007,119
Less: allowance for credit losses and contractual interest not recognised	**(141,023)**	(102,336)	**(104,063)**	(70,313)
Net Loans, advances and financing to customers	**2,753,434**	2,645,359	**1,961,011**	1,936,806

Allowance for the credit losses and contractual interest not recognised

The movements in the allowance for the credit losses and contractual interest not recognised on loans, advances and financing to customers were as follows:

2021 Consolidated	Allowance for credit losses OMR '000	Contractual interest not recognised OMR '000	Total OMR '000
Balance at 1 January 2021	**90,613**	**11,723**	**102,336**
Provided during the year	**38,145**	**10,439**	**48,584**
Amounts written off during the year	**(2,060)**	**(2,843)**	**(4,903)**
Amounts released / recovered during the year	**(4,062)**	**(932)**	**(4,994)**
Balance at 31 December 2021	**122,636**	**18,387**	**141,023**
31 December 2020			
Balance at 1 January 2020	43,522	6,407	49,929
Provided during the year	26,500	6,254	32,754
Amounts written off during the year	(751)	(238)	(989)
Acquisition of Alizz	26,996	833	27,829
Amounts released / recovered during the year	(5,654)	(1,533)	(7,187)
Balance at 31 December 2020	90,613	11,723	102,336
Parent Company			
31 December 2021			
Balance at 1 January 2021	**60,316**	**9,997**	**70,313**
Provided during the year	**34,003**	**9,644**	**43,647**
Amounts written off during the year	**(2,060)**	**(2,843)**	**(4,903)**
Amounts released / recovered during the year	**(4,062)**	**(932)**	**(4,994)**
Balance at 31 December 2021	**88,197**	**15,866**	**104,063**
31 December 2020			
Balance at 1 January 2020	43,522	6,407	49,929
Provided during the year	26,327	5,498	31,825
Amounts written off during the year	(751)	(238)	(989)
Transfer of Al Yusr	(3,128)	(137)	(3,265)
Amounts released / recovered during the year	(5,654)	(1,533)	(7,187)
Balance at 31 December 2020	60,316	9,997	70,313

Total allowance for the credit losses on the performing loans as at 31 December 2021 is RO 51,174 thousand (Consolidated), RO 39,151 thousand (Parent Company) [(2020: RO 39,062 thousand (Consolidated), RO 26,692 thousand (Parent Company)].

Loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 138,026 thousand (Consolidated), RO 106,527 thousand (Parent Company) [2020: RO 119,130 thousand (Consolidated), RO 93,270 thousand (Parent Company)].

Notes to the Financial Statements
as at 31 December 2021

Comparison of provision held as per IFRS 9 and required as per CBO guidelines

Consolidated 2021 (Amounts in OMR '000)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount OMR '000	Provision required as per CBO Norms OMR '000	Provision held as per IFRS 9 OMR '000	Difference between CBO provision required and provision held OMR '000	Net Amount as per CBO norms* OMR '000	Net Amount as per IFRS 9 OMR '000	Interest recognised in P&L as per IFRS 9 OMR '000	Reserve interest as per CBO norms OMR '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	1,990,309	25,749	7,743	18,006	1,964,560	1,982,566	-	-
Standard	Stage 2	233,759	2,303	8,129	(5,826)	231,456	225,630	-	-
	Stage 3	-	-	-	-	-	-	-	-
		2,224,068	**28,052**	**15,872**	**12,180**	**2,196,016**	**2,208,196**	**-**	**-**
	Stage 1	229,610	1,938	1,472	466	227,672	228,138	-	-
Special Mention	Stage 2	348,619	13,029	33,830	(20,801)	335,590	314,789	-	-
	Stage 3	-	-	-	-	-	-	-	-
		578,229	**14,967**	**35,302**	**(20,335)**	**563,262**	**542,927**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,728	849	1,088	(239)	1,737	1,640	-	142
		2,728	849	1,088	(239)	1,737	1,640	-	142
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	12,275	5,437	6,982	(1,545)	6,069	5,293	-	769
		12,275	**5,437**	**6,982**	**(1,545)**	**6,069**	**5,293**	**-**	**769**
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	123,023	78,037	63,392	14,645	27,510	59,631	-	17,476
		123,023	**78,037**	**63,392**	**14,645**	**27,510**	**59,631**	**-**	**17,476**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,112,781	-	907	(907)	1,112,781	1,111,874	-	-
	Stage 2	134,726	-	358	(358)	134,726	134,368	-	-
	Stage 3	5,562	235	2,488	(2,253)	5,327	3,074	-	-
		1,253,069	**235**	**3,753**	**(3,518)**	**1,252,834**	**1,249,316**	**-**	**-**
	Stage 1	**3,332,700**	**27,687**	**10,122**	**17,565**	**3,305,013**	**3,322,578**	**-**	**-**
Total	**Stage 2**	**717,104**	**15,332**	**42,317**	**(26,985)**	**701,772**	**674,787**	**-**	**-**
	Stage 3	**143,588**	**84,558**	**73,950**	**10,608**	**40,643**	**69,638**	**-**	**18,387**
	Total	**4,193,392**	**127,577**	**126,389**	**1,188**	**4,047,428**	**4,067,003**	**-**	**18,387**

Notes to the Financial Statements
as at 31 December 2021

Comparison of provision held as per IFRS 9 and required as per CBO guidelines

Parent company (Amounts in OMR '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	1,299,970	17,578	6,175	11,403	1,282,392	1,293,795	-	-
	Stage 2	182,843	1,804	3,570	(1,766)	181,039	179,273	-	-
	Stage 3	-	-	-	-	-	-	-	-
		1,482,813	**19,382**	**9,745**	**9,637**	**1,463,431**	**1,473,068**	**-**	**-**
Special Mention	Stage 1	191,597	1,887	1,136	751	189,710	190,461	-	-
	Stage 2	304,983	12,924	28,270	(15,346)	292,059	276,713	-	-
	Stage 3	-	-	-	-	-	-	-	-
		496,580	**14,811**	**29,406**	**(14,595)**	**481,769**	**467,174**	**-**	**-**
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,090	713	709	4	1,293	1,381	-	84
		2,090	**713**	**709**	**4**	**1,293**	**1,381**	**-**	**84**
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	5,547	2,246	2,310	(64)	2,907	3,237	-	394
		5,547	**2,246**	**2,310**	**(64)**	**2,907**	**3,237**	**-**	**394**
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	98,890	59,143	46,027	13,116	24,359	52,863	-	15,388
		98,890	**59,143**	**46,027**	**13,116**	**24,359**	**52,863**	**-**	**15,388**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	913,395	-	672	(672)	913,395	912,723	-	-
	Stage 2	132,073	-	138	(138)	132,073	131,935	-	-
	Stage 3	5,320	-	2,408	(2,408)	5,320	2,912	-	-
		1,050,788	**-**	**3,218**	**(3,218)**	**1,050,788**	**1,047,570**	**-**	**-**
	Stage 1	**2,404,962**	**19,465**	**7,983**	**11,482**	**2,385,497**	**2,396,979**	**-**	**-**
	Stage 2	**619,899**	**14,728**	**31,978**	**(17,250)**	**605,171**	**587,921**	**-**	**-**
	Stage 3	**111,847**	**62,102**	**51,454**	**10,648**	**33,879**	**60,393**	**-**	**15,866**
Total	**Total**	**3,136,708**	**96,295**	**91,415**	**4,880**	**3,024,547**	**3,045,293**	**-**	**15,866**

Notes to the Financial Statements
as at 31 December 2021

Comparison of provision held as per IFRS 9 and required as per CBO guidelines

Consolidated 2021

(Amounts in OMR '000)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount OMR '000	Provision required as per CBO Norms OMR '000	Provision held as per IFRS 9 OMR '000	Difference between CBO provision required and provision held OMR '000	Net Amount as per CBO norms* OMR '000	Net Amount as per IFRS 9 OMR '000	Interest recognised in P&L as per IFRS 9 OMR '000	Reserve interest as per CBO norms OMR '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	1,833,059	23,369	8,825	14,544	1,809,690	1,824,234	-	-
	Stage 2	272,256	2,686	7,692	(5,006)	269,570	264,564	-	-
	Stage 3	-	-	-	-	-	-	-	-
		2,105,315	26,055	16,517	9,538	2,079,260	2,088,798	-	-
Special Mention	Stage 1	199,087	1,922	995	927	197,165	198,092	-	-
	Stage 2	357,660	11,417	22,133	(10,716)	346,243	335,527	-	-
	Stage 3	-	-	-	-	-	-	-	-
		556,747	13,339	23,128	(9,789)	543,408	533,619	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	26,154	6,271	12,155	(5,884)	19,333	13,999	-	550
		26,154	6,271	12,155	(5,884)	19,333	13,999	-	550
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	13,803	5,846	7,511	(1,665)	7,179	6,292	-	778
		13,803	5,846	7,511	(1,665)	7,179	6,292	-	778
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	79,173	44,188	31,302	12,886	24,590	47,871	-	10,395
		79,173	44,188	31,302	12,886	24,590	47,871	-	10,395
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	956,685	-	325	(325)	956,685	956,360	-	-
	Stage 2	304,159	-	219	(219)	304,159	303,940	-	-
	Stage 3	4,514	229	2,136	(1,907)	4,285	2,378	-	-
		1,265,358	229	2,680	(2,451)	1,265,129	1,262,678	-	-
Total	Stage 1	2,988,831	25,291	10,145	15,146	2,963,540	2,978,686	-	-
	Stage 2	934,075	14,103	30,044	(15,941)	919,972	904,031	-	-
	Stage 3	123,644	56,534	53,104	3,430	55,387	70,540	-	11,723
	Total	4,046,550	95,928	93,293	2,635	3,938,899	3,953,257	-	11,723

Notes to the Financial Statements
as at 31 December 2021

Comparison of provision held as per IFRS 9 and required as per CBO guidelines

Parent Company

(Amounts in OMR '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	1,230,915	16,870	6,205	10,665	1,214,045	1,224,710	-	-
	Stage 2	208,522	2,044	3,064	(1,020)	206,478	205,458	-	-
	Stage 3	-	-	-	-	-	-	-	-
		1,439,437	18,914	9,269	9,645	1,420,523	1,430,168	-	-
Special Mention	Stage 1	193,288	1,877	964	913	191,411	192,324	-	-
	Stage 2	300,720	10,796	16,470	(5,674)	289,924	284,250	-	-
	Stage 3	-	-	-	-	-	-	-	-
		494,008	12,673	17,434	(4,761)	481,335	476,574	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	24,565	5,978	11,556	(5,578)	18,071	13,009	-	516
		24,565	5,978	11,556	(5,578)	18,071	13,009	-	516
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,440	1,763	1,205	558	2,485	3,235	-	192
		4,440	1,763	1,205	558	2,485	3,235	-	192
Loss	Stage 1	-	-	-	-	-	-		
	Stage 2	-	-	-	-	-	-		
	Stage 3	64,265	32,095	20,852	11,243	22,881	43,413		9,289
		64,265	32,095	20,852	11,243	22,881	43,413	-	9,289
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	810,201	-	300	(300)	810,201	809,901	-	-
	Stage 2	300,761	-	181	(181)	300,761	300,580	-	-
	Stage 3	3,881	-	1,563	(1,563)	3,881	2,318	-	-
		1,114,843	-	2,044	(2,044)	1,114,843	1,112,799	-	-
Total	Stage 1	2,234,404	18,747	7,469	11,278	2,215,657	2,226,935	-	-
	Stage 2	810,003	12,840	19,715	(6,875)	797,163	790,288	-	-
	Stage 3	97,151	39,836	35,176	4,660	47,318	61,975	-	9,997
	Total	3,141,558	71,423	62,360	9,063	3,060,138	3,079,198	-	9,997

The CBO regulations require that the allowance for credit losses should be in accordance with IFRS 9 and if the provision requirements as per the CBO guidelines are higher than IFRS 9, the difference, net of tax, needs to be transferred to the "Impairment Reserve" as an appropriation from net profit after tax. In March 2021, the CBO suspended the two-track approach / parallel run for the computation of additional provisions as per the CBO norms for 2021 only. Accordingly, there were no transfers to the impairment reserve in 2021.

Stage Classification at origination and Staging Guidelines

At origination, all loans are classified as stage 1, as IFRS 9 stipulates a deterioration in credit quality since inception as criteria for stage 2 classification. The exposures, subsequent to the classification at origination, are classified into three categories, Stage 1, Stage 2 and Stage 3 for the purposes of calculating the credit risk losses.

Upon significant deterioration in the credit quality since inception of an exposure, the asset is classified as Stage 2. The Bank, in limited circumstances and with proper justifications and specific approval from the Chief Risk Officer, does not treat certain events as significant increases in credit risk and continues to classify the related financing exposures as Stage 1.

Stage 2 classification of assets is based on significant increase in credit risk (note 5.1) and if exposures are past due for 30 to 89 days.

Stage 3 classification is for exposures in default. An asset is considered to have defaulted if the exposures are past due for 90 days and above.

Islamic financing

Below is the product wise breakup of loans and advances included under Islamic finance:

31 December 2021	Corporate OMR '000	Retail OMR '000	Total OMR '000
Musharaka	**177,689**	**152,843**	**330,532**
Murabaha	**52,243**	**58,770**	**111,013**
Ijarah Muntahia Bittamleek	**99,833**	**135,556**	**235,389**
Wakala	**148,298**	**2,000**	**150,298**
Others	**-**	**2,151**	**2,151**
Balance at 31 December 2021	**478,063**	**351,320**	**829,383**

31 December 2020	Corporate OMR '000	Retail OMR '000	Total OMR '000
Musharaka	144,770	100,267	245,037
Murabaha	42,446	61,386	103,832
Ijarah Muntahia Bittamleek	104,800	156,724	261,524
Wakala	128,180	-	128,180
Others	-	2,003	2,003
Balance at 31 December 2020	420,196	320,380	740,576

Notes to the Financial Statements
as at 31 December 2021

Restructured loans

2021 Consolidated **(Amounts in OMR '000)**

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms	Net Carrying Amount as per IFRS 9	Interest recognised in 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	13,242	51	254	(203)	13,191	12,988	-	-
	Stage 2	182,374	11,102	21,588	(10,486)	171,272	160,786	-	-
	Stage 3	-	-	-	-	-	-	-	-
		195,616	**11,153**	**21,842**	**(10,689)**	**184,463**	**173,774**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	35,744	26,930	22,375	4,555	5,584	13,369	-	3,230
		35,744	**26,930**	**22,375**	**4,555**	**5,584**	**13,369**	**-**	**3,230**
Total	**Stage 1**	**13,242**	**51**	**254**	**(203)**	**13,191**	**12,988**	**-**	**-**
	Stage 2	**182,374**	**11,102**	**21,588**	**(10,486)**	**171,272**	**160,786**	**-**	**-**
	Stage 3	**35,744**	**26,930**	**22,375**	**4,555**	**5,584**	**13,369**	**-**	**3,230**
	Total	**231,360**	**38,083**	**44,217**	**(6,134)**	**190,047**	**187,143**	**-**	**3,230**

Parent Company **(Amounts in OMR '000)**

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in 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	-	-	-	-	-	-	-	-
	Stage 2	145,495	10,997	18,513	(7,516)	134,498	126,982	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**145,495**	**10,997**	**18,513**	**(7,516)**	**134,498**	**126,982**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	30,149	21,812	18,230	3,582	5,584	11,919	-	2,753
Sub total		**30,149**	**21,812**	**18,230**	**3,582**	**5,584**	**11,919**	**-**	**2,753**
Total	**Stage 1**	-	-	-	-	-	-	-	-
	Stage 2	**145,495**	**10,997**	**18,513**	**(7,516)**	**134,498**	**126,982**	**-**	**-**
	Stage 3	**30,149**	**21,812**	**18,230**	**3,582**	**5,584**	**11,919**	**-**	**2,753**
	Total	**175,644**	**32,809**	**36,743**	**(3,934)**	**140,082**	**138,901**	**-**	**2,753**

2020 Consolidated (Amounts in OMR '000)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms	Net Carrying Amount as per IFRS 9	Interest recognised in 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	-	-	-	-	-	-	-	-
	Stage 2	149,534	9,526	14,450	(4,924)	140,008	135,084	-	-
	Stage 3	-	-	-	-	-	-	-	-
		149,534	9,526	14,450	(4,924)	140,008	135,084	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	30,147	9,977	15,128	(5,151)	19,331	15,019	-	839
		30,147	9,977	15,128	(5,151)	19,331	15,019	-	839
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	149,534	9,526	14,450	(4,924)	140,008	135,084	-	-
	Stage 3	30,147	9,977	15,128	(5,151)	19,331	15,019	-	839
	Total	179,681	19,503	29,578	(10,075)	159,339	150,103	-	839

Parent company (Amounts in OMR '000)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in 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	-	-	-	-	-	-	-	-
	Stage 2	115,638	9,488	11,005	(1,517)	106,150	104,633	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		115,638	9,488	11,005	(1,517)	106,150	104,633	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	25,206	7,672	11,085	(3,413)	17,072	14,121	-	462
Sub total		25,206	7,672	11,085	(3,413)	17,072	14,121	-	462
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	115,638	9,488	11,005	(1,517)	106,150	104,633	-	-
	Stage 3	25,206	7,672	11,085	(3,413)	17,072	14,121	-	462
	Total	140,844	17,160	22,090	(4,930)	123,222	118,754	-	462

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Concentration of loans and advances

All loans and advances were granted to customers within the Sultanate of Oman. The concentration of gross loans and advances by economic sector is as follows:

	Consolidated				Parent Company			
	2021		2020		2021		2020	
	OMR '000		OMR '000		OMR '000		OMR '000	
Personal loans	**1,087,264**	**38%**	1,042,859	38%	**735,944**	**36%**	722,479	36%
Construction	**267,747**	**9%**	327,603	12%	**227,259**	**11%**	226,840	11%
Manufacturing	**285,958**	**10%**	259,635	9%	**192,822**	**9%**	180,739	9%
Mining and quarrying	**144,504**	**5%**	178,230	7%	**134,240**	**7%**	143,014	7%
Services	**305,641**	**11%**	274,493	10%	**166,939**	**8%**	146,509	7%
Import trade	**97,902**	**3%**	100,632	4%	**79,499**	**4%**	80,822	4%
Transportation	**115,309**	**4%**	115,112	4%	**106,704**	**5%**	105,821	5%
Electricity, water & gas	**54,441**	**2%**	56,966	2%	**45,086**	**2%**	49,433	3%
Wholesale and retail trade	**115,568**	**4%**	124,781	5%	**71,600**	**3%**	93,980	5%
Financial institutions	**108,333**	**3%**	81,036	3%	**94,934**	**5%**	81,036	4%
Agriculture and allied activities	**17,825**	**1%**	13,843	1%	**7,075**	**0%**	7,792	1%
Export trade	**905**	**0%**	514	0%	**425**	**0%**	514	0%
Government	**1,075**	**0%**	-	0%	**1**	**0%**	-	0%
Lending to non-residents	**1,160**	**0%**	3,387	0%	**1,160**	**0%**	1,500	0%
Others	**290,825**	**10%**	168,604	6%	**201,386**	**10%**	166,640	8%
	2,894,457	**100%**	2,747,695	100%	**2,065,074**	100%	2,007,119	100%

2021 Consolidated	Stage 1 OMR '000	Stage 2 OMR '000	Stage 3 OMR '000	Total OMR '000
Exposure subject to ECL				
- Loans and Advances to Customers including interest receivables	2,219,919	582,378	138,026	**2,940,323**
- Investment Securities (Debt)	296,303	-	-	**296,303**
- Loan Commitments, financial guarantees and acceptances	765,432	134,726	5,562	**905,720**
- Due from Banks, Central Banks and Other Financial Assets	51,046	-	-	**51,046**
	3,332,700	**717,104**	**143,588**	**4,193,392**
Opening balance as at 1 January 2021				
- Loans and Advances to Customers including interest receivables	9,820	29,825	50,968	**90,613**
- Investment Securities (Debt)	67	-	403	**470**
- Loan Commitments, financial guarantees and acceptances	217	219	1,733	**2,169**
- Due from Banks, Central Banks and Other Financial Assets	41	-	-	**41**
	10,145	**30,044**	**53,104**	**93,293**
Net transfer between stages				
- Loans and Advances to Customers including interest receivables	542	(772)	230	-
- Investment Securities (Debt)	-	-	-	-
- Loan Commitments, financial guarantees and acceptances	4	(1)	-	**3**
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	546	**(773)**	**230**	**3**
Charge for the year (net)				
- Loans and Advances to Customers including interest receivables	(1,147)	12,906	22,324	**34,083**
- Investment Securities (Debt)	215	-	(403)	**(188)**
- Loan Commitments, financial guarantees and acceptances	330	140	755	**1,225**
- Due from Banks, Central Banks and Other Financial Assets	33	-	-	**33**
	(569)	**13,046**	**22,676**	**35,153**
- Write Off	**-**	**-**	**(2,060)**	**(2,060)**
Closing balance as at 31 December 2021				
- Loans and Advances to Customers including interest receivables	9,215	41,959	71,462	**122,636**
- Investment Securities (Debt)	282	-	-	**282**
- Loan Commitments, financial guarantees and acceptances	551	358	2,488	**3,397**
- Due from Banks, Central Banks and Other Financial Assets	74	-	-	**74**
	10,122	**42,317**	**73,950**	**126,389**

Impairment charge and provisions held

OMR '000

2021 Consolidated	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit or loss account	35,153	35153	-
Provisions required as per CBO norms/held as per IFRS 9	127,577	126,389	1,188
Gross NPL ratio	4.77%	4.77%	
Net NPL ratio	1.86%	2.30%	

2021 Parent Company	Stage 1 OMR '000	Stage 2 OMR '000	Stage 3 OMR '000	Total OMR '000
Exposure subject to ECL				
- Loans and Advances to Customers including interest receivables	1,491,567	487,826	106,527	**2,085,920**
- Investment Securities (Debt)	233,832	-	-	**233,832**
- Loan Commitments, financial guarantees and acceptances	625,010	132,073	5,320	**762,403**
- Due from Banks and Other Financial Assets	54,553	-	-	**54,553**
	2,404,962	**619,899**	**111,847**	**3,136,708**
Opening Balance- as at 1 January 2021				
- Loans and Advances to Customers including interest receivables	7,169	19,534	33,613	**60,316**
- Investment Securities (Debt)	67	-	-	**67**
- Loan Commitments, financial guarantees and acceptances	193	181	1,563	**1,937**
- Due from Banks and Other Financial Assets	40	-	-	**40**
	7,469	**19,715**	**35,176**	**62,360**
Net transfer between stages				
- Loans and Advances to Customers including interest receivables	609	(839)	230	-
- Investment Securities (Debt)	-	-	-	-
- Loan Commitments, financial guarantees and acceptances	4	(7)	-	**(3)**
- Due from Banks and Other Financial Assets	-	-	-	-
	613	**(846)**	**230**	**(3)**
Charge for the Year (net)				
- Loans and Advances to Customers including interest receivables	(467)	13,145	17,263	**29,941**
- Investment Securities (Debt)	209	-	-	**209**
- Loan Commitments, financial guarantees and acceptances	126	(36)	845	**935**
- Due from Banks and Other Financial Assets	33	-	-	**33**
	(99)	**13,109**	**18,108**	**31,118**
- Write Off	**-**	**-**	**(2,060)**	**(2,060)**
Closing Balance - as at 31 December 2021				
- Loans and Advances to Customers	7,311	31,840	49,046	**88,197**
- Investment Securities (Debt)	276	-	-	**276**
- Loan Commitments, financial guarantees and acceptances	323	138	2,408	**2,869**
- Due from Banks and Other Financial Assets	73	-	-	**73**
	7,983	**31,978**	**51,454**	**91,415**

Impairment charge and provisions held

2021 Parent Company	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit or loss account	31,118	31,118	-
Provisions required as per CBO norms/held as per IFRS 9	96,295	91,415	4,880
Gross NPL ratio	5.16%	5.16%	
Net NPL ratio	2.15%	2.78%	

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2020 Consolidated	Stage 1 OMR '000	Stage 2 OMR '000	Stage 3 OMR '000	Total OMR '000
Exposure subject to ECL				
- Loans and Advances to Customers and interest receivables	2,032,146	629,916	119,130	2,781,192
- Investment Securities (Debt)	235,069	-	401	235,470
- Loan Commitments, financial guarantees and acceptances	648,737	304,159	4,113	957,009
- Due from Banks, Central Banks and Other Financial Assets	72,879	-	-	72,879
	2,988,831	934,075	123,644	4,046,550
Opening balance as at 1 January 2020				
- Loans and Advances to Customers including interest receivables	7,001	14,998	21,523	43,522
- Investment Securities (Debt)	67	-	-	67
- Loan Commitments, financial guarantees and acceptances	675	175	2,964	3,814
- Due from Banks, Central Banks and Other Financial Assets	190	-	-	190
	7,933	15,173	24,487	47,593
Acquisition related adjustments				
- Loans and Advances to Customers including interest receivables	1,687	11,665	13,023	26,375
- Investment Securities (Debt)	-	-	-	-
- Loan Commitments, financial guarantees and acceptances	64	53	504	621
- Due from Banks, Central Banks and Other Financial Assets	1	-	-	1
	1,752	11,718	13,527	26,997
Net transfer between stages				
- Loans and Advances to Customers including interest receivables	4	(6,050)	6,667	621
- Investment Securities (Debt)	-	-	-	-
- Loan Commitments, financial guarantees and acceptances	(68)	11	323	266
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	(64)	(6,039)	6,990	887
Charge for the year (net)	-	-	-	-
- Loans and Advances to Customers including interest receivables	1,128	9,212	10,506	20,846
- Investment Securities (Debt)	-	-	403	403
- Loan Commitments, financial guarantees and acceptances	(454)	(20)	(2,058)	(2,532)
- Due from Banks, Central Banks and Other Financial Assets	(150)	-	-	(150)
	524	9,192	8,851	18,567
Write-off	-	-	(751)	(751)
Closing balance as at 31 December 2020				
- Loans and Advances to Customers including interest receivables	9,820	29,825	50,968	90,613
- Investment Securities (Debt)	67	-	403	470
- Loan Commitments, financial guarantees and acceptances	217	219	1,733	2,169
- Due from Banks, Central Banks and Other Financial Assets	41	-	-	41
	10,145	30,044	53,104	93,293

Impairment charge and provisions held

OMR '000

2020 Consolidated	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit or loss account	18,567	18,567	-
Provisions required as per CBO norms/held as per IFRS 9	95,928	93,293	2,635
Gross NPL ratio	4.34%	4.34%	
Net NPL ratio	2.29%	2.48%	

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2020 Parent Company	Stage 1 OMR '000	Stage 2 OMR '000	Stage 3 OMR '000	Total OMR '000
Exposure subject to ECL				
- Loans and Advances to Customers and interest receivables	1,424,203	509,242	93,270	2,026,715
- Investment Securities (Debt)	171,975	-	-	171,975
- Loan commitments, financial guarantees and acceptances	567,135	300,761	3,881	871,777
- Due from Banks, Central Banks and Other Financial Assets	71,091	-	-	71,091
	2,234,404	810,003	97,151	3,141,558
Opening Balance- as at 1 January 2020				
- Loans and Advances to Customers	7,001	14,998	21,523	43,522
- Investment Securities (Debt)	67	-	-	67
- Loan commitments, financial guarantees and acceptances	675	175	2,966	3,816
- Due from Banks, Central Banks and Other Financial Assets	169	-	-	169
	7,912	15,173	24,489	47,574
Transfer of Al Yusr				
- Loans and Advances to Customers	(795)	(542)	(1,788)	(3,125)
- Investment Securities (Debt)	-	-	-	-
- Loan commitments, financial guarantees and acceptances	(2)	(1)	-	(3)
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	(797)	(543)	(1,788)	(3,128)
Net transfer between stages				
- Loans and Advances to Customers	772	(2,817)	2,042	(3)
- Investment Securities (Debt)	-	-	-	-
- Loan commitments, financial guarantees and acceptances	(26)	26	657	657
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	746	(2,791)	2,699	654
Charge for the Year (net)				
- Loans and Advances to Customers	191	7,895	12,587	20,673
- Investment Securities (Debt)	-	-	-	-
- Loan commitments, financial guarantees and acceptances	(454)	(19)	(2,060)	(2,533)
- Due from Banks, Central Banks and Other Financial Assets	(129)	-	-	(129)
	(392)	7,876	10,527	18,011
Write Off	-	-	(751)	(751)
Closing Balance - as at 31 December 2020				
- Loans and Advances to Customers including interest receivables	7,169	19,534	33,613	60,316
- Investment Securities (Debt)	67	-	-	67
- Loan commitments, financial guarantees and acceptances	193	181	1,563	1,937
- Due from Banks, Central Banks and Other Financial Assets	40	-	-	40
	7,469	19,715	35,176	62,360

Impairment charge and provisions held

2020 Parent Company	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit or loss account	18,011	18,011	-
Provisions required as per CBO norms/held as per IFRS 9	71,423	62,360	9,063
Gross NPL ratio	4.65%	4.65%	
Net NPL ratio	2.66%	2.97%	

10. Investment securities

	Consolidated		Parent Company	
	Carrying value	Carrying value	Carrying value	Carrying value
	31-Dec-21	31-Dec-20	31-Dec-21	31-Dec-20
	OMR '000	OMR '000	OMR '000	OMR '000
Fair value through profit and loss (FVTPL)				
Quoted investments- Oman				
Banking and investment sector	**293**	250	**293**	250
	293	250	**293**	250
Quoted investments- Foreign				
Banking and investment sector	**180**	153	**180**	153
	180	153	**180**	153
Total Fair value through profit and loss	**473**	403	**473**	403
Fair value through OCI (FVOCI)				
Equity investments measured at FVOCI				
Quoted investments- Oman				
Banking and investment sector	**5,007**	1,195	**5,007**	1,195
Manufacturing sector	**194**	842	**194**	842
Service sector	**464**	1,776	**464**	1,776
	5,665	3,813	**5,665**	3,813
Unquoted investments - Foreign				
Banking and investment sector	**168**	174	**168**	174
Service sector	**-**	65	**-**	65
	168	239	**168**	239
Unquoted investments - Oman				
Banking and investment sector	**-**	168	**-**	168
Service sector	**169**	595	**169**	169
	169	763	**169**	337
Total Equity investments measured at FVOCI	**6,002**	4,815	**6,002**	4,389
Debt investments measured at FVOCI				
Government Sukuk	**41,074**	41,055	**-**	-
Government Development Bonds (GDBs)	**22,737**	-	**22,737**	-
Banking and investment sector	**19,159**	4,346	**15,857**	-
	82,970	45,401	**38,594**	-
Total FVOCI	**88,972**	50,216	**44,596**	4,389
Amortized cost				
Quoted investments - Oman				
Government Development Bonds (GDBs)	**182,499**	162,589	**182,499**	162,589
Government Sukuk	**18,095**	18,094	**-**	-
Service sector	**-**	9,386	**-**	9,386
	200,594	190,069	**182,499**	171,975
Quoted investments - Foreign				
Service sector	**12,739**	-	**12,739**	-
	12,739	-	**12,739**	-
Total Amortized cost	**213,333**	190,069	**195,238**	171,975
Total Gross financial investments	**302,778**	240,688	**240,307**	176,767
Less: allowance for credit losses	**(282)**	(470)	**(276)**	(67)
Net financial investments	**302,496**	240,218	**240,031**	176,700

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Consolidated	FVOCI Equity Investments OMR '000	FVOCI Debt Investments OMR '000	Amortised cost OMR '000	FVTPL OMR '000	Total OMR '000
At 1 January 2021	4,815	45,400	190,070	403	**240,688**
Additions	7,595	38,832	56,642	1	**103,070**
Disposals and redemption	(6,605)	(691)	(33,379)	-	**(40,675)**
(Loss) / gain from change in fair value	197	(571)	-	69	**(305)**
	6,002	**82,970**	**213,333**	**473**	**302,778**
Less: allowance for credit losses	-	(182)	(100)	-	**(282)**
At 31 December 2021	**6,002**	**82,788**	**213,233**	**473**	**302,496**
Parent Company					
At 1 January 2021	4,389	-	171,975	403	**176,767**
Additions	7,595	38,832	56,642	1	**103,070**
Disposals and redemption	(6,179)	-	(33,379)	-	**(39,558)**
(Loss) / gain from change in fair value	197	(238)	-	69	**28**
	6,002	**38,594**	**195,238**	**473**	**240,307**
Less: allowance for credit losses	-	(176)	(100)	-	**(276)**
At 31 December 2021	**6,002**	**38,418**	**195,138**	**473**	**240,031**
Consolidated					
At 1 January 2020	3,501	-	158,069	3,919	165,489
Acquisition related adjustments	-	27,476	14,923	-	42,399
Additions	2,491	26,354	20,978	-	49,823
Disposals and redemption	(1,058)	(8,416)	(3,900)	(3,445)	(16,819)
Loss from change in fair value	(119)	(14)	-	(71)	(204)
	4,815	45,400	190,070	403	240,688
Less: allowance for credit losses	-	(403)	(67)	-	(470)
At 31 December 2020	4,815	44,997	190,003	403	240,218
Parent Company					
At 1 January 2020	3,501	-	158,069	3,919	165,489
Transfer of Al Yusr	(425)	-	(3,172)	-	(3,597)
Additions	2,490	-	20,978	-	23,468
Disposals and redemption	(1,043)	-	(3,900)	(3,445)	(8,388)
Loss from change in fair value	(134)	-	-	(71)	(205)
	4,389	-	171,975	403	176,767
Less: allowance for credit losses	-	-	(67)	-	(67)
At 31 December 2020	4,389	-	171,908	403	176,700

The following table contains their levels in the fair value hierarchy.

2021 Consolidated	Level 1 OMR '000	Level 2 OMR '000	Level 3 OMR '000	Total OMR '000
Investment measured at FVTPL				
Quoted investments	473	-	-	**473**
Equity investment measured at FVOCI				
Quoted investments	5,665	-	-	**5,665**
Unquoted investments	-	-	337	**337**
Debt investments measured at FVOCI				
Quoted investments	38,594	44,376	-	**82,970**
Investment measured at amortised cost				
Quoted investments	195,238	18,095	-	**213,333**
Total gross financial investments	**239,970**	**62,471**	**337**	**302,778**
Less: allowance for credit losses	(276)	(6)	-	**(282)**
Net financial investments	**239,694**	**62,465**	**337**	**302,496**

2021 Parent Company	Level 1 OMR '000	Level 2 OMR '000	Level 3 OMR '000	Total OMR '000
Investment measured at FVTPL				
Quoted investments	473	-	-	**473**
Equity investment measured at FVOCI				
Quoted investments	5,665	-	-	**5,665**
Unquoted investments	-	-	337	**337**
Debt investments measured at FVOCI				
Quoted investments	38,594	-	-	**38,594**
Investment measured at amortised cost				
Quoted investments	195,238	-	-	**195,238**
Total gross financial investments	**239,970**	**-**	**337**	**240,307**
Less: allowance for credit losses	(276)	-	-	**(276)**
Net financial investments	**239,694**	**-**	**337**	**240,031**

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2020 Consolidated	Level 1 OMR '000	Level 3 OMR '000	Total OMR '000
Investment measured at FVTPL			
Quoted investments	403	-	403
Equity investment measured at FVOCI			
Quoted investments	4,052	-	4,052
Unquoted investments	-	763	763
Debt investments measured at FVOCI			
Quoted investments	45,400	-	45,400
Investment measured at amortised cost			
Quoted investments	190,070	-	190,070
Gross financial investments	239,925	763	240,688
Less: allowance for credit losses	(470)	-	(470)
Total financial investments	239,455	763	240,218

2020 Parent Company	Level 1 OMR '000	Level 3 OMR '000	Total OMR '000
Investment measured at FVTPL			
Quoted investments	404	-	404
Equity investment measured at FVOCI			
Quoted investments	4,052	-	4,052
Unquoted investments	-	337	337
Investment measured at amortised cost			
Quoted investments	171,974	-	171,974
Gross financial investments	176,430	337	176,767
Less: allowance for credit losses	(67)	-	(67)
Total financial investments	176,363	337	176,700

Movement in allowances for the credit losses for debt securities

	Consolidated		Parent Company	
	2021 OMR '000	2020 OMR '000	**2021 OMR '000**	2020 OMR '000
Beginning of the year	**470**	67	**67**	67
(Release) / charge during the year	**(188)**	403	**209**	-
Balance at the end of the year	**282**	470	**276**	67

All debt securities at amortized cost outstanding as of 31 December 2021 are classified under stage 1 (2020: stage 1). The Group has assumed LGD of 0% on GDBs amounting to RO 205,236 thousand (2020: RO 162,589 thousand) and Government Sukuks amounting to RO 59,169 thousand (2020: RO 59,149 thousand).

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

	Bank's portfolio %	Carrying value OMR '000
31 December 2021		
Government Development Bonds and sukuks (Consolidated)	**91%**	**264,405**
Government Development Bonds and sukuks (Parent Company)	**85%**	**205,236**
31 December 2020		
Government Development Bonds and sukuks (Consolidated)	92%	221,739
Government Development Bonds and sukuks (Parent Company)	92%	162,589

During the year ended 31 December 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

11. Investment in subsidiary

The Bank has the following investment in a subsidiary.

Name of Subsidiary	Country of Incorporation	2021 holding	2020 holding
Alizz Islamic Bank SAOC	Sultanate of Oman	**100%**	100%

	OMR '000
Investment in Alizz Islamic Bank (AIB) (subsidiary)	**107,144**

The key balance sheet and income statement items of the subsidiary are as follows:

Statement of financial position items	2021 OMR '000	2020 OMR '000
Total assets	**974,147**	866,249
Total liabilities	**869,469**	765,620
Share capital	**139,500**	139,500

Income statement items	2021 OMR '000	From Date of Acquisition to31 December 2020 OMR '000	From 1 January-31 December 2020 OMR '000
Operating income	**25,483**	10,521	20,594
Total expenses	**21,164**	10,664	28,185
Profit / (loss) after tax	**4,382**	(143)	(7,591)

Finalisation of purchase price allocation (PPA)

In 2020, the Bank recorded a provisional goodwill related to the acquisition of AIB amounting RO 6.5 million, being the difference between the consideration amount and net assets acquired, in accordance with IFRS 3 "Business Combination". The PPA exercise was finalized during the year resulting in derecognition of the provisional goodwill due to recognition of identifiable intangible assets namely core deposits intangible (CDI), banking license and brand in addition to recognising a bargain purchase gain of RO 1.17 million (note 33).

The adjustment on finalisation of PPA exercise is as follows:

	OMR '000
Consideration transferred at acquisition during 2020	68,886
Less: Net assets recognised on provisional PPA exercise in 2020	(62,381)
Goodwill recorded on basis of provisional PPA exercise in 2020 (A)	6,505
Increase in net assets acquiring based on final PPA exercise in 2021 (B)	7,675
Bargain purchase gain recognized during 2021 (note 33B) (B-A)	1,170

12. Property and equipment

Consolidated	Land and buildings OMR '000	Computer equipment OMR '000	Equip-ment, furniture & fixtures OMR '000	Motor vehicles OMR '000	Capital work in Progress OMR '000	Right of use OMR '000	Total OMR '000
Cost							
At 1 January 2020	21,743	20,997	13,682	357	5,972	8,609	71,360
Acquisition of Alizz	-	6,907	3,843	-	101	-	10,851
Initial recognition of IFRS 16 of Alizz	-	-	-	-	-	740	740
Additions	99	1,704	448	-	7,277	-	9,528
Transfers	3,943	105	-	-	(4,048)	-	-
Disposals	-	(3,365)	(711)	(38)	-	-	(4,114)
At 31 December 2020	25,785	26,348	17,262	319	9,302	9,349	88,365
At 1 January 2021	**25,785**	**26,348**	**17,262**	**319**	**9,302**	**9,349**	**88,365**
Additions	**-**	**86**	**104**	**-**	**5,589**	**1,006**	**6,785**
Transfers	**334**	**12,570**	**1,146**	**-**	**(14,050)**	**-**	**-**
Adjustments	**36**	**107**	**-**	**-**	**(104)**	**-**	**39**
At 31 December 2021	**26,155**	**39,111**	**18,512**	**319**	**737**	**10,355**	**95,189**
Depreciation							
At 1 January 2020	3,908	15,761	9,950	294	-	1,722	31,635
Acquisition of Alizz	-	4,821	2,497	-	-	-	7,318
Charge for the year	670	2,614	1,658	30	-	1,908	6,880
Disposals	-	(3,327)	(708)	(38)	-	-	(4,073)
At 31 December 2020	4,578	19,869	13,397	286	-	3,630	41,760
Depreciation							
At 1 January 2021	**4,578**	**19,869**	**13,397**	**286**	**-**	**3,630**	**41,760**
Charge for the year	**781**	**4,820**	**1,856**	**14**	**-**	**2,731**	**10,202**
Adjustments	**74**	**(104)**	**(46)**	**-**	**-**	**-**	**(76)**
At 31 December 2021	**5,433**	**24,585**	**15,207**	**300**	**-**	**6,361**	**51,886**
Net book value							
At 31 December 2020	21,207	6,479	3,865	33	9,302	5,719	46,605
At 31 December 2021	**20,722**	**14,526**	**3,305**	**19**	**737**	**3,994**	**43,303**

Parent Company	Land and buildings OMR '000	Computer equipment OMR '000	Equip-ment, furniture & fixtures OMR '000	Motor vehicles OMR '000	Capital work in progress OMR '000	Right of use OMR '000	Total OMR '000
Cost							
At 1 January 2020	21,743	20,997	13,682	357	5,972	8,609	71,360
Al Yusr disposals	-	(498)	(1,008)	-	(15)	-	(1,521)
Additions	99	1,334	397	-	7,244	-	9,074
Transfers	3,943	-	-	-	(3,943)	-	-
Disposals	-	(3,365)	(711)	(38)	-	-	(4,114)
At 31 December 2020	25,785	18,468	12,360	319	9,258	8,609	74,799
At 1 January 2021	**25,785**	**18,468**	**12,360**	**319**	**9,258**	**8,609**	**74,799**
Additions	**-**	**-**	**-**	**-**	**5,468**	**750**	**6,218**
Transfers	**334**	**12,481**	**1,146**	**-**	**(13,961)**	**-**	**-**
Adjustments	**36**	**-**	**3**	**-**	**-**	**-**	**39**
At 31 December 2021	**26,155**	**30,949**	**13,509**	**319**	**765**	**9,359**	**81,056**
Depreciation							
At 1 January 2020	3,908	15,761	9,950	294	-	1,722	31,635
Al Yusr disposals	-	(437)	(941)	-	-	-	(1,378)
Charge for the year	670	2,291	1,423	30	-	1,722	6,136
Disposals	-	(3,327)	(708)	(38)	-	-	(4,073)
At 31 December 2020	4,578	14,288	9,724	286	-	3,444	32,320
Depreciation							
At 1 January 2021	**4,578**	**14,288**	**9,724**	**286**	**-**	**3,444**	**32,320**
Charge for the year	**781**	**4216**	**1469**	**14**	**-**	**1995**	**8,475**
Adjustments	**74**	**(104)**	**(46)**	**-**	**-**	**-**	**(76)**
At 31 December 2021	**5,433**	**18,400**	**11,147**	**300**	**-**	**5,439**	**40,719**
Net book value							
At 31 December 2020	21,207	4,180	2,636	33	9,258	5,165	42,479
At 31 December 2021	**20,722**	**12,549**	**2,362**	**19**	**765**	**3,920**	**40,337**

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13. Intangible assets

On 30 June 2020, Oman Arab Bank acquired 100% of AIB and AIB became a wholly owned subsidiary. Following the finalisation of the PPA (note 11), the following assets were recognised in 2021.

	Consolidated		Parent Company	
	31-Dec-2021 OMR '000	31-Dec-2020 OMR '000	**31-Dec-2021 OMR '000**	31-Dec-2020 OMR '000
Core deposits	**3,102**	-	-	-
Banking license	**3,573**	-	-	-
Brand	**1,000**	-	-	-
Goodwill	**-**	6,505		
	7,675	6,505	-	-
Less: accumulated amortization	**(465)**	-	-	-
	7,210	6,505	-	-

The core deposits intangible (CDI) is estimated to have a useful life of 10 years and is amortised based on a straight line method.

14. Other assets

	Consolidated		Parent Company	
	31-Dec-2021 OMR '000	31-Dec-2020 OMR '000	**31-Dec-2021 OMR '000**	31-Dec-2020 OMR '000
Customers' indebtedness against acceptances	**20,468**	13,159	**20,468**	13,159
Fees receivable	**2,119**	1,691	**2,119**	1,691
Interest receivable	**48,673**	36,277	**23,653**	22,376
Prepayments	**2,519**	2,549	**1,927**	2,203
Positive fair value of derivatives	**1,856**	1,088	**1,856**	1,088
Deferred tax asset	**2,930**	2,867	**-**	-
Others	**10,775**	12,257	**9,335**	8,711
	89,340	69,888	**59,358**	49,228

Others include repossessed properties of RO 4.4 million (2020 – RO 0.8 million) which will be sold as soon as practicable.

15. Due to banks

	Consolidated		Parent Company	
	31-Dec-2021 OMR '000	31-Dec-2020 OMR '000	**31-Dec-2021 OMR '000**	31-Dec-2020 OMR '000
Current accounts	**3,151**	4,923	**3,151**	4,923
Borrowings	**10,208**	9,498	**10,208**	5,648
	13,359	14,421	**13,359**	10,571

16. Deposits from customers

a) By type

	Consolidated		Parent Company	
	31-Dec-2021	31-Dec-2020	**31-Dec-2021**	31-Dec-2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Term deposits	**1,274,137**	1,256,283	**912,537**	927,000
Demand and call accounts	**970,868**	958,585	**698,334**	745,291
Saving accounts	**565,407**	540,442	**354,326**	358,471
	2,810,412	2,755,310	**1,965,197**	2,030,762

b) By sector

	Consolidated		Parent Company	
	31-Dec-2021	31-Dec-2020	**31-Dec-2021**	31-Dec-2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Private	**1,824,710**	1,943,577	**1,530,722**	1,464,511
Government	**985,702**	811,733	**434,475**	566,251
	2,810,412	2,755,310	**1,965,197**	2,030,762

17. Other liabilities

	Consolidated		Parent Company	
	31-Dec-2021	31-Dec-2020	**31-Dec-2021**	31-Dec-2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Liabilities against acceptances	**20,468**	13,159	**20,468**	13,159
Interest payable	**26,873**	30,269	**18,496**	22,519
Accrued expenses and other payables	**16,262**	13,699	**13,240**	8,829
Cheques and trade settlement payable	**3,158**	7,174	**2,107**	3,920
Staff end of service benefits	**874**	1,131	**613**	873
Interest and commission received in advance	**2,310**	2,143	**2,310**	2,143
Negative fair value of derivatives	**1,396**	445	**1,396**	445
Deferred tax liability	**168**	408	**168**	408
Expected credit loss on loan commitments, financial guarantees and acceptances	**3,397**	2,169	**2,869**	1,937
Others	**5,307**	274	**242**	274
Lease liability	**4,285**	5,976	**4,155**	**5,401**
	84,498	76,847	**66,064**	59,908

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17.1 Staff end of service benefits

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
At 1 January	**1,131**	910	**873**	910
Transfer of Al Yusr	**-**	-	**-**	(70)
Acquisition of Alizz	**-**	191	**-**	-
Charge for the year	**217**	227	**132**	192
Payment to employees during the year	**(474)**	(197)	**(392)**	(159)
At 31 December	**874**	1,131	**613**	873

18. Subordinated loans

In November 2015, the Bank obtained a subordinated loan of RO 20 million, which complied with Basel III requirements for Tier 2 capital, for a tenor of five years and six months. The loan carried a fixed rate of 5.5% per annum, payable semi-annually with the principal payable on maturity. In 2021, the subordinated loan got matured and the Bank has repaid the loan in full.

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Subordinated loan	**-**	**20,000**	**-**	**20,000**

19. Taxation

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Statement of profit or loss:				
Current tax:				
Current year charge	**483**	2,730	**483**	2,730
Prior years charge	**740**	1,013	**740**	1,013
Deferred tax:				
Prior years (income) / charge	**(303)**	35	**(240)**	35
Tax expense for the year	**920**	3,778	**983**	3,778
Statement of financial position				
Provision for taxation	**3,051**	4,233	**3,051**	4,233
Deferred tax liability	**(168)**	(408)	**(168)**	(408)
Deferred tax asset	**2,930**	2,867	**-**	-
Deferred tax liability				
At 1 January	**(408)**	(373)	**(408)**	(373)
Credit / (charge) for the year	**240**	(35)	**240**	(35)
At 31 December 2021	**(168)**	(408)	**(168)**	(408)
Deferred tax asset				
At 1 January	**2,867**	-	**-**	-
Acquisition of Alizz	**-**	2,867	**-**	-
Credit / (charge) for the year	**63**	-	**-**	-
At 31 December 2021	**2,930**	2,867	**-**	-

Consolidated

Deferred tax liability	01-Jan-21	Charge for the year	31-Dec-21
Property, plant and equipment	(438)	236	(202)
Unrealised loss on FVTPL investments	(6)	4	(2)
Right-of-use assets and lease liabilities	36	-	36
	(408)	**240**	**(168)**

Deferred tax asset	01-Jan-21	Charge for the year	31-Dec-21
Property, plant and equipment	(238)	(3)	(241)
Carried forward taxable losses	3,105	66	3,171
	2,867	**63**	**2,930**

Parent Company

Deferred tax liability	01-Jan-21	Charge for the year	31-Dec-21
Property, plant and equipment	(438)	236	(202)
Unrealised loss on FVTPL investments	(6)	4	(2)
Right-of-use assets and lease liabilities	36	-	36
	(408)	**240**	**(168)**

Details of taxable losses available recognised by the Subsidiary are as below:

	2021	2020
	OMR '000	OMR '000
Available until 31 December 2022 (declared)	**3,559**	3,559
Available until 31 December 2024 (declared)	**9,988**	9,988
Available until 31 December 2025 (declared)	**7,654**	7,654

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Bank is 15% (2020: 15%). For determining the tax expense for the year, the accounting profit for the year has been adjusted for tax purposes.

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Profit before tax	**8,001**	17,949	**4,027**	18,093
Tax at the applicable rate of 15%	**1,200**	2,692	**604**	2,714
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	**(1020)**	73	**(361)**	51
Prior year	**740**	1,013	**740**	1,013
Tax expense for the year	**920**	3,778	**983**	3,778

Status of tax assessments (Parent Company)

The tax assessment up to and including 2018 has been completed by the Tax Authority. The tax returns for 2019 to 2021 have not yet been assessed by the Tax Authority.

Status of tax assessments (Subsidiary)

The tax assessment up to and including 2017 has been completed by the Tax Authority. The tax returns for 2018 to 2021 have not yet been assessed by the Tax Authority.

20. Share capital

The authorized capital of the Bank is RO 200,000,000 (2020: RO 200,000,000). Prior to the acquisition of AIB, the Bank has issued, subscribed and fully paid 1,346,200,000 equity share of 100 baisa each. On 30 June 2020, the Bank issued additional 323,210,000 equity shares to the shareholders of AIB as a consideration for acquisition of 100 per cent control. Subsequently, the issued, subscribed and fully paid up share capital is comprising of 1,669,410,000 equity shares of 100 baisa each (2020: 1,669,410,000).

Number of shares of 100 Baisa of Oman Arab Bank SAOG as of 1 January 2020	1,346,200,000
Number of shares of 100 Baisa each issued to shareholders of Alizz Bank SAOG	323,210,000
Total number of shares as at 31 December 2020 and 31 December 2021	1,669,410,000

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

31 December 2021	Shareholding %	Number of shares	OMR '000
Arab Bank PLC	49.00%	818,010,900	81,801
Oman International Development & Investment Co. SAOG	31.64%	528,189,100	52,819
Various parties, including Trusts	19.36%	323,210,000	32,321
	100.00%	1,669,410,000	166,941

21. Share premium

In 2020, the Bank has issued shares on premium for acquisition of AIB. Below is the summary of the reported share premium in the statement of financial position and statement of changes in equity:

Premium per shares (RO) – A	0.113
Issue of shares to shareholders of AIB (323,210,000) – B	32,321
Share premium (A x B) (RO thousands)	36,565

22. General reserve

The Bank has established the general reserve to meet any unforeseen contingencies. No transfers were made from / to general reserve during the 2021 and 2020.

23. Subordinated loans reserve

The subordinated loans reserve has been created in accordance with guidelines of the CBO through a transfer of 20% of the loan amount from the net profit for the year. In 2021, a subordinated loan of RO 20 million was repaid (refer note 18) and subsequently the reserve related to this loan was transferred back to the retained earnings.

24. Special reserve

In 2015, the Parent Company sold its old head office (HO) premises at Ruwi, following its move to the new HO at Al Ghoubra. The profit on sale amounting to RO 2.4 million (2020: RO 2.4 million) was set aside as a special reserve and is not available for distribution without prior approval of the CBO. The Bank has created a reserve in the amount of RO 1.4 million (2020: RO 1.4 million) for restructured accounts in accordance with the CBO guidelines. The reserve created is not available for distribution or the inclusion in the calculation of the regulatory capital.

25. Perpetual Tier 1 Capital Bonds

a. On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed on the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75 per cent per annum payable semi-annually in arrears. Interest is treated as a deduction from equity for capital adequacy purpose. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and the CBO regulations. On 27 December 2021, the Bank has issued an irrevocable notice of redemption of the bonds, whereby the Bank will fully redeem these bonds on 29 January 2022 (first call date).

b. On 17 October 2018, the Bank issued another series of unsecured perpetual Tier 1 bonds of RO 42.5 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5 per cent per annum payable semi-annually in arrears. Interest is treated as a deduction from equity for capital adequacy purpose. Interest is non-cumulative and payable at Bank's discretion. The bonds are in pari-passu with earlier issue.

c. On 7 June 2021, the Bank issued unsecured perpetual Tier 1 bonds of USD 250 million equivalent to RO 96.25 million. The bonds are listed on the International Security Market (ISM) of the London Stock Exchange. The bonds carry a fixed coupon rate of 7.625 per cent per annum payable semi-annually in arrears. Interest is treated as a deduction from equity for capital adequacy purpose. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and the CBO regulations.

The Tier 1 bonds 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 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion. The Bond under note (a) has First Call Date on 29 January 2022, bond under note (b) has First Call date on 17 October 2023 and bond under note (c) has First Call date on 04 June 2026 or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

26. Legal reserve

In accordance with Article 132 of 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 reserve is not available for distribution.

27. Dividend proposed and paid

Dividend is not accounted for until it has been approved at the Annual General Meeting (AGM). The Board of Directors has proposed nil dividend for the year ended 31 December 2021 (2020: nil).

28. Interest income

	Consolidated		Parent Company	
	2021	2020	2021	2020
	OMR '000	OMR '000	OMR '000	OMR '000
Loans and advances	**107,863**	108,511	**107,863**	108,511
Oman Government Development Bonds and Sukuk	**10,892**	8,886	**10,892**	8,886
Placements with banks	**303**	1,470	**303**	1,470
	119,058	118,867	**119,058**	118,867

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29. Interest expense

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Time deposits	**37,237**	34,506	**37,237**	34,506
Subordinated loans	**452**	1,103	**452**	1,103
Call accounts	**6,699**	4,575	**6,699**	4,575
Bank borrowings	**1,416**	4,514	**1,416**	4,514
Savings accounts	**3,441**	2,879	**3,441**	2,879
Interest cost on lease liabilities	**222**	293	**222**	282
Others	**1,264**	93	**1,264**	93
	50,731	47,963	**50,731**	47,952

30. Net income from Islamic financing

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Income from Islamic financing	**44,443**	24,221	**-**	3,421
Income from Government Sukuk	**3,057**	1,394	**-**	81
Profit paid on participatory deposits	**(26,283)**	(15,512)	**-**	(2,509)
Net income from Islamic activities	**21,217**	10,103	**-**	993

31. Net fee and commission income

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Fee and commission income	**18,689**	16,395	**14,807**	15,171
Fee and commission expense	**(1,457)**	(899)	**(1,438)**	(896)
	17,232	15,496	**13,369**	14,275

31.1 Disaggregation of fees and commission income

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Transactional income	**12,164**	7,473	**8,301**	7,410
Trade income	**2,828**	5,169	**2,828**	4,981
Loans related income	**2,240**	2,854	**2,240**	1,884
Net fee and commission income	**17,232**	15,496	**13,369**	14,275

32. Net income / (loss) from investment securities

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Fair value changes	**69**	(71)	**69**	(71)
Profit / (loss) on sale of amortized cost investments	**3,120**	(134)	**3,120**	-
Dividend income	**149**	71	**149**	71
	3,338	(134)	**3,338**	-

33. Other operating income

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Exchange income	**4,315**	5,508	**3,912**	5,173
Insurance claim against insurance recovery (note 33A)	**5,938**	-	**5,938**	-
Other income (note 33B)	**1,258**	47	**88**	47
	11,511	5,555	**9,938**	5,220

33A The Bank reported an operational loss on account of forgery and embezzlement in the financial statements as at and for the year ended 31 December 2020. The Bank filed criminal complaint with the concerned authorities and also filed a claim with the insurance company under Banker's Blanket Bond insurance policy of the Bank. During the year, the Bank received the insurance claim amount from the loss adjuster. Accordingly, the Bank recognised income against the amount of the insurance claim under other operating income.

33B Includes RO 1.17 million representing a bargain purchase gain recognized following the finalization of the PPA exercise (note 13).

34. Operating expenses

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Staff costs (refer 34A)	**42,122**	33,026	**30,505**	26,574
Other operating expenses	**25,387**	19,053	**20,624**	16,168
Operational loss	**24**	6,223	**24**	6,223
Depreciation	**10,202**	6,880	**8,475**	6,136
Amortization	**465**	-	**-**	-
Directors' remuneration	**271**	226	**199**	198
	78,471	65,408	**59,827**	55,299

34A. Staff costs

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
Details of staff costs are as follows:	**OMR '000**	OMR '000	**OMR '000**	OMR '000
Salaries	**22,615**	21,870	**16,339**	17,827
Allowances	**9,903**	6,849	**5,525**	5,387
Social security costs	**3,030**	2,346	**2,152**	1,964
End of service benefits	**217**	227	**132**	192
Other costs	**6,357**	1,734	**6,357**	1,204
	42,122	33,026	**30,505**	26,574

The Bank employed 1,540 staff (Group), 1,164 staff (Parent Company) as at 31 December 2021 [2020: 1,523 (Group), 1,145 staff (Parent Company)].

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35. Earnings per share

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

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Profit for the year (OMR '000)	**7,081**	14,171	**3,044**	14,315
Less: Interest distribution of Perpetual Tier 1 capital bonds (OMR '000)	**(9,187)**	(5,516)	**(9,187)**	(5,516)
Less: Additional Tier 1 bonds issuance cost (OMR '000)	**(1,008)**	-	**(1,008)**	-
Profit for the year attributable to equity holders of the Bank (OMR '000)	**(3,114)**	8,655	**(7,151)**	8,799
Weighted average number of shares outstanding during the year	**1,669,410,000**	1,507,805,000	**1,669,410,000**	1,507,805,000
Basic earning per share (RO)	**(0.002)**	0.006	**(0.004)**	0.006

Weighted average number of shares outstanding

	Weighted Average Shares
1 January 2021 to 31 December 2021	1,669,410,000
Weighted average as at 31 December 2021	**1,669,410,000**

The basic earnings per share is the profit for the year divided by the weighted average number of shares outstanding. No figure for diluted earnings per share has been presented, as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

36. Related party transactions

Management service agreement with a shareholder

The Bank has a management agreement with Arab Bank Plc Jordan, a shareholder. During the year ended 31 December 2021, the management fees in accordance with the agreement amounted to RO 21,243 (2020: RO 42,945).

Other related parties transactions

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

2021 Consolidated	Subsidiary OMR '000	Major shareholders OMR '000	Others OMR '000	Total OMR '000
Loans and advances	-	24,029	117,379	141,408
Other assets	-	-	229	229
Customers' deposits	-	22,619	46,345	68,964
Due from banks	-	8,876	-	8,876
Due to banks	-	6,358	-	6,358
Stand by line of credit	-	48,125	-	48,125
Letters of credit, guarantees and acceptances	-	94,241	3,449	97,690

2021 Parent Company	Subsidiary OMR '000	Major shareholders OMR '000	Others OMR '000	Total OMR '000
Loans and advances	-	24,029	102,596	126,625
Customers' deposits	-	22,619	44,045	66,664
Due from banks	5,775	8,876	-	14,651
Other asset	45	-	-	45
Due to banks	-	6,358	-	6,358
Stand by line of credit	-	48,125	-	48,125
Letters of credit, guarantees and acceptances	-	94,241	3,449	97,690

2020 Consolidated	Subsidiary OMR '000	Major shareholders OMR '000	Others OMR '000	Total OMR '000
Loans and advances	-	24,014	95,602	119,616
Customers' deposits	-	31,429	34,739	66,168
Due from banks	-	3,560	-	3,560
Due to banks	-	7,039	20,000	27,039
Stand by line of credit	-	38,500	-	38,500
Letters of credit, guarantees and acceptances	-	95,890	1,455	97,345

2020 Parent Company	Subsidiary OMR '000	Major shareholders OMR '000	Others OMR '000	Total OMR '000
Loans and advances	452	24,014	83,344	107,810
Customers' deposits	88	31,429	33,654	65,171
Due from banks	20,000	3,560	-	23,560
Due to banks	-	7,039	-	7,039
Stand by line of credit	-	38,500	-	38,500
Letters of credit, guarantees and acceptances	-	95,890	1,455	97,345

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Movement of loans and advances given to related parties:

	Consolidated		Parent Company	
	2021 OMR '000	2020 OMR '000	2021 OMR '000	2020 OMR '000
At 1 January 2021	119,164	76,431	107,358	76,431
Disbursed during the year	484,704	379,554	481,727	367,748
Paid during the year	(462,460)	(336,821)	(462,460)	(336,821)
At 31 December 2021	141,408	119,164	126,625	107,358

None of the loans and advances given to related parties were identified as impaired and in accordance with IFRS 9, ECL provision amounting to RO 1,012,535 (Consolidated), RO 1,001,535 (Parent Company) [2020: RO 785,900 (Consolidated), RO 711,954 (Parent Company)] has been recognised against loans and advances given to related parties.

The statement of comprehensive income includes the following amounts in relation to the transactions with related parties:

2021 Consolidated	Subsidiary OMR '000	Major shareholders OMR '000	Others OMR '000	Total OMR '000
Interest and commission income	-	1,206	5,683	6,889
Interest expense	-	912	1,469	2,381

2021 Parent Company	Subsidiary OMR '000	Major shareholders OMR '000	Others OMR '000	Total OMR '000
Interest and commission income	4	1,206	4,889	6,099
Interest expense	-	912	1,405	2,317

2020 Consolidated	Subsidiary	Major shareholders OMR '000	Others OMR '000	Total OMR '000
Interest and commission income	-	1,223	3,370	4,593
Interest expense	-	770	946	1,716
Parent Company				
31 December 2020				
Interest and commission income	1	708	3,370	4,079
Interest expense	-	770	946	1,716

Key management compensation

The Directors' remuneration is set out in Note 34. The remuneration of other members of key management during the year was as follows:

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Salaries and other short-term benefits	**2,556**	1,742	**1,632**	1,177
Service benefits	**155**	23	**134**	11
	2,711	1,765	**1,766**	1,188

37. Cash and cash equivalents

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Cash and balances with the Central Bank of Oman (CBO) (note 7)	**188,904**	220,975	**105,954**	173,652
Due from banks (note 8)	**41,046**	59,782	**44,553**	57,995
Less: due to banks (note 15)	**(13,359)**	(14,421)	**(13,359)**	(10,571)
Restricted deposits included under balances with the CBO	**(1,025)**	(1,025)	**(500)**	(500)
	215,566	265,311	**136,648**	220,576

38. Derivative financial instruments

At the reporting date, there were outstanding forward foreign exchange contracts, all maturing within one year, entered into on behalf of customers for the sale and purchase of foreign currencies. These financial instruments have been recognised at prices in active markets for identical assets or liabilities.

Also, the Bank has entered into IRS (Interest Rate Swaps) on behalf of its clients and has fully covered the position on back-to-back basis, leaving no open position on the Bank's books. An IRS is an agreement between two counterparties to exchange a stream of fixed interest payments for floating (variable) interest payments on a specified notional amount. A floating rate borrower can fix his floating liabilities payment by entering into payer swap, in which he pays the fixed rate.

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The Bank is not exposed to entire notional amount of IRS, rather, its risk is limited only to the amount of differential interest payment which the client may not honor at the time of settlement. These fair values and the notional contracted amounts related to the Parent Company are summarised below. As of reporting date, Subsidiary has no derivative instruments.

31 December 2021	**Positive fair value OMR '000**	**Negative fair value OMR '000**	**Notional amount OMR '000**	**Within 3 Months OMR '000**	**3 - 12 months OMR '000**	**More than 1 year OMR '000**
Purchase contracts	**346**	**-**	**202,225**	**175,260**	**26,965**	**-**
Sale contracts	**-**	**(240)**	**(202,119)**	**(175,237)**	**(26,882)**	**-**
Interest rate swaps	**1,510**	**(1,156)**	**36,953**	**-**	**-**	**36,953**
	1,856	**(1,396)**	**37,059**	**23**	**83**	**36,953**

31 December 2020	Positive fair value OMR '000	Negative fair value OMR '000	Notional Amount OMR '000	Within 3 Months OMR '000	3 - 12 months OMR '000	More than 1 year OMR '000
Purchase contracts	574	-	90,456	74,952	15,504	-
Sale contracts	-	(163)	(90,045)	(74,613)	(15,432)	-
Interest rate swaps	514	(282)	8,653	-	-	8,653
	1,088	(445)	9,064	339	72	8,653

Derivative financial instruments are fair valued as level 2.

39. Net assets per share

The calculation of net assets per share is based on net assets as at 31 December 2021 attributable to ordinary shareholders of RO 166,941 million (2020: RO 166,941 million) and on 1,669,410,000 ordinary shares (2020 – 1,669,410,000 ordinary shares) being the number of shares outstanding as at 31 December 2021.

	Consolidated		Parent Company	
	31-Dec-21	31-Dec-20	**31-Dec-21**	31-Dec-20
	OMR '000	OMR '000	**OMR '000**	OMR '000
Total equity (OMR '000)	**355,536**	359,024	**351,841**	359,033
Number of shares (in thousands)	**1,669,410**	1,669,410	**1,669,410**	1,669,410
Net assets per share	**0.213**	0.215	**0.211**	0.215

40. Contingent liabilities and commitments

(a) Letters of credit and guarantees

The Bank is a party to financial instrument with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and others. The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount. The risk involved is essentially the same as the credit risk involved in extending loan facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements for customers applying for loans and advances.

The outstanding contract value or the notional amounts of these instruments at 31 December were as follows:

	Consolidated		Parent Company	
	2021	2020	**2021**	2020
	OMR '000	OMR '000	**OMR '000**	OMR '000
Letters of credit	**163,773**	77,600	**83,165**	73,635
Guarantees	**213,284**	251,150	**187,629**	221,837
Financial guarantees	**74,126**	141,928	**74,126**	107,220
	451,183	470,678	**344,920**	402,692

As at 31 December 2021, the unutilised commitment of facilities of RO 434,069,237 (Consolidated), RO 397,015,237 (Parent Company); [(2020 RO 473,172,481 (Consolidated), RO 438,464,519 (Parent Company)].

Letters of credit and guarantees amounting to [Parent Company RO 180,982,121 (2020: 193,971,021)] were counter guaranteed by other banks. As of reporting date the subsidiary has no material letters of credit and guarantees that were counter guaranteed by other banks.

(i) The allowances for credit losses for commitments and financial guarantees is included under note 17.

(ii) Contingent liabilities include RO 5,562,061 (Consolidated), RO 5,320,021 (Parent Company); [2020 RO 4,618,965 (Consolidated), RO 4,246,491 (Parent Company)] relating to non-performing loans.

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

	Consolidated				Parent Company			
	2021		2020		**2021**		2020	
	OMR '000		OMR '000		**OMR '000**		OMR '000	
Construction	**11,313**	**3%**	34,335	7%	**7,636**	**2%**	19,743	5%
Utilities	**201,132**	**45%**	226,983	48%	**197,585**	**57%**	223,760	56%
Export trade	**51,423**	**11%**	45,857	10%	**51,423**	**15%**	45,790	11%
Government	**106,723**	**24%**	23,505	5%	**33,782**	**10%**	19,743	5%
Import trade	**31,751**	**7%**	44,483	9%	**31,742**	**9%**	27,845	7%
Transportation	**1,137**	**0%**	553	0%	**-**	**0%**	-	0%
Wholesale and retail trade	**4,814**	**1%**	22,975	5%	**2,653**	**1%**	13,162	3%
Services	**39,496**	**9%**	65,231	14%	**19,959**	**6%**	49,359	12%
Manufacturing	**2,078**	**0%**	4,621	1%	**13**	**0%**	2,303	1%
Mining & Quarrying	**1,316**	**0%**	2,135	1%	**127**	**0%**	987	0%
	451,183	**100%**	470,678	100%	**344,920**	**100%**	402,692	100%

Credit-related financial instruments include unutilised commitments to extend credit, standby letters of credit and guarantees which are designed to meet the financing requirements of customers. The credit risk on these transactions is generally less than the contractual amount. The notional principal amounts of outstanding credit-related contingent items and the risk-weighted exposures calculated were as follows:

	Consolidated		Parent Company	
		31-Dec-21		31-Dec-21
	Notional principal amount	Risk-weighted exposure	Notional principal amount	Risk-weighted exposure
	OMR '000	OMR '000	**OMR '000**	OMR '000
Guarantees	**287,410**	**145,480**	**261,755**	**132,652**
Letters of credit	**163,773**	**4,289**	**83,165**	**2,756**
	451,183	**149,769**	**344,920**	**135,408**

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises, equipment and softwares purchases were RO 5.8 million (2020: RO 7.8 million).

(c) Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had certain unresolved legal claims which are not expected to have any significant implication on the Bank's financial statements (2020: Nil).

41. Assets and liabilities maturity profile

The Bank has established policies to manage the liquidity risk arising from the mismatch in the final maturity of the assets and liabilities on the statement of financial position as explained in note 5.3. The table below represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the reporting date.

Consolidated 2021	On demand or within 3 months OMR '000	3 to 12 months OMR '000	Sub total OMR '000	1 to 5 Years OMR '000	Over 5 years OMR '000	Total OMR '000
Assets						
Cash and balances with the Central Bank of Oman	107,961	24,109	132,070	35,935	20,899	**188,904**
Due from banks	40,972	10,000	50,972	-	-	**50,972**
Loans and advances	462,118	240,357	702,475	788,701	1,262,258	**2,753,434**
Investment securities	1,631	5,213	6,844	132,860	162,792	**302,496**
Intangible assets	-	-	-	-	7,210	**7,210**
Other assets	51,685	34,725	86,410	2,930	-	**89,340**
Property and equipment	-	-	-	2,966	40,337	**43,303**
Total assets	**664,367**	**314,404**	**978,771**	**963,392**	**1,493,496**	**3,435,659**
Liabilities						
Due to banks	13,359	-	13,359	-	-	**13,359**
Deposits from customers	362,376	722,008	1,084,384	948,206	777,822	**2,810,412**
Other liabilities	50,496	10,846	61,342	23,156	-	**84,498**
Taxation	3,051	-	3,051	-	-	**3,051**
Total liabilities	**429,282**	**732,854**	**1,162,136**	**971,362**	**777,822**	**2,911,320**
Net assets (Total equity)	**235,085**	**(418,450)**	**(183,365)**	**(7,970)**	**715,674**	**524,339**
Forward exchange contracts at notional amounts (note 38)						
Purchase contracts	175,260	26,965	202,225	-	-	202,225
Sale contracts	(175,237)	(26,882)	(202,119)	-	-	(202,119)
	23	**83**	**106**	**-**	**-**	**106**

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2021 Parent Company	On demand or within 3 months OMR '000	3 to 12 months OMR '000	Sub total OMR '000	1 to 5 Years OMR '000	Over 5 years OMR '000	Total OMR '000
Assets						
Cash and balances with the Central Bank of Oman	47,296	19,346	66,642	18,413	20,899	**105,954**
Due from banks	44,480	10,000	54,480	-	-	**54,480**
Loans and advances	369,481	140,854	510,335	615,407	835,269	**1,961,011**
Investment securities	1,153	2,013	3,166	74,073	162,792	**240,031**
Investment in subsidiary	-	-	-	-	107,144	**107,144**
Other assets	51,731	7,627	59,358	-	-	**59,358**
Property and equipment	-	-	-	-	40,337	**40,337**
Total assets	**514,141**	**179,840**	**693,981**	**707,893**	**1,166,441**	**2,568,315**
Liabilities						
Due to banks	13,359	-	13,359	-	-	**13,359**
Deposits from customers	262,638	566,355	828,993	539,028	597,176	**1,965,197**
Other liabilities	50,541	10,846	61,387	4,677	-	**66,064**
Taxation	3,051	-	3,051	-	-	**3,051**
Total liabilities	**329,589**	**577,201**	**906,790**	**543,705**	**597,176**	**2,047,671**
Net assets (Total equity)	**184,552**	**(397,361)**	**(212,809)**	**164,188**	**569,265**	**520,644**
Forward exchange contracts at notional amounts (note 38)						
Purchase contracts	175,260	26,965	202,225	-	-	202,225
Sale contracts	(175,237)	(26,882)	(202,119)	-	-	(202,119)
	23	**83**	**106**	**-**	**-**	**106**

2020 Consolidated	On demand or within 3 months OMR '000	3 to 12 months OMR '000	Sub total OMR '000	1 to 5 Years OMR '000	Over 5 years OMR '000	Total OMR '000
Assets						
Cash and balances with the Central Bank of Oman	181,418	12,126	193,544	12,447	14,984	220,975
Due from banks	59,838	13,000	72,838	-	-	72,838
Loans and advances	526,858	263,185	790,043	778,421	1,076,895	2,645,359
Investment securities	49,052	-	49,052	96,481	94,685	240,218
Intangible assets	-	-	-	-	6,505	6,505
Other assets	47,202	22,661	69,863	-	25	69,888
Property and equipment	-	-	-	-	46,605	46,605
Total assets	864,368	310,972	1,175,340	887,349	1,239,699	3,302,388
Liabilities						
Due to banks	14,421	-	14,421	-	-	14,421
Deposits from customers	383,484	752,188	1,135,672	849,320	770,318	2,755,310
Other liabilities	44,025	9,953	53,978	22,869	-	76,847
Subordinated loans	-	20,000	20,000	-	-	20,000
Taxation	3,825	-	3,825	408	-	4,233
Total liabilities	445,755	782,141	1,227,896	872,597	770,318	2,870,811
Net assets (Total equity)	418,613	(471,169)	(52,556)	14,752	469,381	431,577
Forward exchange contracts at notional amounts (note 38)						
Purchase contracts	74,952	15,504	90,456	-	-	90,456
Sale contracts	(74,613)	(15,432)	(90,045)	-	-	(90,045)
	339	72	411	-	-	411

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2020 Parent Company	On demand or within 3 months OMR '000	3 to 12 months OMR '000	Sub total OMR '000	1 to 5 Years OMR '000	Over 5 years OMR '000	Total OMR '000
Assets						
Cash and balances with the Central Bank of Oman	134,620	12,126	146,746	12,447	14,459	173,652
Due from banks	58,051	13,000	71,051	-	-	71,051
Loans and advances	443,026	161,584	604,610	505,761	826,435	1,936,806
Investment securities	6,806	-	6,806	75,209	94,685	176,700
Investments in subsidiary	-	-	-	-	107,144	107,144
Other assets	48,957	271	49,228	-	-	49,228
Property and equipment	-	-	-	-	42,479	42,479
Total assets	691,460	186,981	878,441	593,417	1,085,202	2,557,060
Liabilities						
Due to banks	10,571	-	10,571	-	-	10,571
Deposits from customers	302,257	543,938	846,195	558,360	626,207	2,030,762
Other liabilities	44,025	10,236	54,261	5,647	-	59,908
Subordinated loans	-	20,000	20,000	-	-	20,000
Taxation	3,825	-	3,825	408	-	4,233
Total liabilities	360,678	574,174	934,852	564,415	626,207	2,125,474
Net assets (Total equity)	330,782	(387,193)	(56,411)	29,002	458,995	431,586
Forward exchange contracts at notional amounts (note 38)						
Purchase contracts	74,952	15,504	90,456	-	-	90,456
Sale contracts	(74,613)	(15,432)	(90,045)	-	-	(90,045)
	339	72	411	-	-	411

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The following table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. For issued guarantee contracts, the maximum amount of the guarantee is allocated to the earliest year in which the guarantee could be called.

2021 Consolidated	On demand or within 3 months OMR '000	3 to 12 months OMR '000	1 to 5 years OMR '000	Over 5 years OMR '000	Total OMR '000
Letters of guarantee	179,438	75,765	32,107	100	287,410
Letters of credit	82,972	49,823	30,978	-	163,773
Total commitments and contingencies	**262,410**	**125,588**	**63,085**	**100**	**451,183**

2021 Parent Company	On demand or within 3 months OMR '000	3 to 12 months OMR '000	1 to 5 years OMR '000	Over 5 years OMR '000	Total OMR '000
Letters of guarantee	175,990	69,363	16,302	100	**261,755**
Letters of credit	69,068	14,069	28	-	**83,165**
Total commitments and contingencies	**245,058**	**83,432**	**16,330**	**100**	**344,920**

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The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments. The details of Bank's capital commitments and unutilised loan commitments are disclosed in note 40.

The re-pricing profile is based on contractual re-pricing or maturity dates, whichever dates are earlier. The Bank's assets and liabilities are included at carrying amounts.

2021 Consolidated	Average effective interest rate %	Within 3 months OMR '000	4 to 6 months OMR '000	7 to 12 months OMR '000	> 1 to 5 years OMR '000	Over 5 years OMR '000	Non-interest bearing OMR '000	Total OMR '000
Assets								
Cash and balances with the Central Bank of Oman	1.00	60,665	1,905	2,858	10,162	-	113,314	**188,904**
Due from banks	0.31	22,096	10,000	-	-	-	18,876	**50,972**
Loans and advances	5.27	1,199,652	70,368	78,726	976,752	427,936	-	**2,753,434**
Investment- FVTPL & FVOCI		478	1,280	1,920	40,692	38,418	6,475	**89,263**
Amortized Cost	5.96	-	-	2,013	92,444	118,776	-	**213,233**
Intangibles		-	-	-	-	-	7,210	**7,210**
Other assets		23,653	10,839	16,213	-	-	35,705	**86,410**
Property and equipment		-	-	-	-	-	43,303	**43,303**
Deferred tax asset		-	-	-	-	-	2,930	**2,930**
Total assets		**1,306,544**	**94,392**	**101,730**	**1,120,050**	**585,130**	**227,813**	**3,435,659**
Liabilities								
Due to banks	1.79	7,700	-	-	-	-	5,659	**13,359**
Deposits from customers	2.47	729,955	224,680	610,294	603,779	180,646	461,058	**2,810,412**
Other liabilities		2,107	-	-	18,434	-	63,957	**84,498**
Taxation		-	-	-	-	-	3,051	**3,051**
Total liabilities		**739,762**	**224,680**	**610,294**	**622,213**	**180,646**	**533,725**	**2,911,320**
Total interest sensitivity gap		**576,782**	**(140,288)**	**(508,564)**	**497,837**	**404,484**	**(305,912)**	**524,339**
Cumulative interest sensitivity gap		**576,782**	**436,494**	**(72,070)**	**425,767**	**830,251**	**524,339**	

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2021 Parent Company	**Average effective interest rate**	**Within 3 months**	**4 to 6 months**	**7 to 12 months**	**> 1 to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
	%	**OMR '000**	**OMR '000**	**OMR '000**	**OMR '000**	**OMR '000**	**OMR '000**	**OMR '000**
Assets								
Cash and balances with the Central Bank of Oman	1.00	-	-	-	-	-	105,954	105,954
Due from banks	0.31	25,604	10,000	-	-	-	18,876	54,480
Loans and advances	5.27	1,107,015	30,567	19,024	803,458	947	-	1,961,011
Investment- FVTPL & FVOCI		-	-	-	-	38,418	6,475	44,893
Amortized Cost	5.96	-	-	2,013	74,349	118,776		195,138
Intangibles		-	-	-	-	-	-	-
Investment in subsidiary		-	-	-	-	-	107,144	107,144
Other assets		23,653	-	-	-	-	35,705	59,358
Property and equipment		-	-	-	-	-	40,337	40,337
Deferred tax asset		-	-	-	-	-	-	-
Total assets		**1,156,272**	**40,567**	**21,037**	**877,807**	**158,141**	**314,491**	**2,568,315**
Liabilities								
Due to banks	1.79	7,700	-	-	-	-	5,659	13,359
Deposits from customers	2.47	630,217	162,419	516,902	194,601	-	461,058	1,965,197
Other liabilities		2,107	-	-	-	-	63,957	66,064
Taxation		-	-	-	-	-	3,051	3,051
Total liabilities		**640,024**	**162,419**	**516,902**	**194,601**	**-**	**533,725**	**2,047,671**
Total interest sensitivity gap		**526,248**	**(131,852)**	**(495,865)**	**683,206**	**158,141**	**(219,234)**	**520,644**
Cumulative interest sensitivity gap		**526,248**	**394,396**	**(101,469)**	**581,737**	**739,878**	**520,644**	

Notes to the Financial Statements
as at 31 December 2021

2020 Consolidated	Average Effective interest rate	Within 3 months	4 to 6 months	7 to 12 months	> 1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Assets								
Cash and balances with the Central Bank of Oman	1.00	42,349	-	-	-	500	178,126	220,975
Due from banks	2.25	32,903	-	-	-	-	39,935	72,838
Loans and advances	5.58	1,135,116	126,175	164,630	1,196,621	22,817	-	2,645,359
at FVTPL & FVOCI		-	-	-	42,251	-	4,792	47,043
Amortized Cost	5.15	2,378	-	-	88,583	102,214	-	193,175
Intangible assets		-	-	-	-	-	6,505	6,505
Other assets		44,017	-	-	-	-	25,871	69,888
Property and equipment		-	-	-	-	-	46,605	46,605
Total assets		1,256,763	126,175	164,630	1,327,455	125,531	301,834	3,302,388
Liabilities								
Due to banks	1.78	8,767	-	-	-	-	5,654	14,421
Deposits from customers	3.16	583,912	527,766	778,866	286,301	-	578,465	2,755,310
Other liabilities		7,174	-	-	-	-	69,673	76,847
Subordinated loans	5.50	-	20,000	-	-	-	-	20,000
Taxation		-	-	-	-	-	4,233	4,233
Total liabilities		599,853	547,766	778,866	286,301	-	658,025	2,870,811
Total interest sensitivity gap		656,910	(421,591)	(614,236)	1,041,154	125,531	(356,191)	431,577
Cumulative interest sensitivity gap		656,910	235,319	(378,917)	662,237	787,768	431,577	

2020 Parent Company	Average effective interest rate	Within 3 months	4 to 6 months	7 to 12 months	> 1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Assets								
Cash and balances with the Central Bank of Oman	1.00	42,349	-	-	-	500	130,803	173,652
Due from banks	2.41	32,904	-	-	-	-	38,147	71,051
Loans and advances	5.55	727,394	45,682	15,891	1,146,957	882	-	1,936,806
at FVTPL & FVOCI		-	-	-	-	-	4,792	4,792
Amortized Cost	5.36	2,378	-	-	88,583	80,947	-	171,908
Investments in subsidiary		-	-	-	-	107,144	-	107,144
Other assets		44,300	-	-	-	-	4,928	49,228
Property and equipment		-	-	-	-	-	42,479	42,479
Total assets		849,325	45,682	15,891	1,235,540	189,473	221,149	2,557,060
Liabilities								
Due to banks	1.75	4,917	-	-	-	-	5,654	10,571
Deposits from customers	2.31	338,912	504,027	502,619	151,071	-	534,133	2,030,762
Other liabilities		7,174	-	-	-	-	52,734	59,908
Subordinated loans	5.50	-	20,000	-	-	-	-	20,000
Taxation		-	-	-	-	-	4,233	4,233
Total liabilities		351,003	524,027	502,619	151,071	-	596,754	2,125,474
Total interest sensitivity gap		498,322	(478,345)	(486,728)	1,084,469	189,473	(375,605)	431,586
Cumulative interest sensitivity gap		498,322	19,977	(466,751)	617,718	807,191	431,586	

42. Geographical distribution of assets and liabilities

2021 Consolidated	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Assets						
Cash and balances with the Central Bank of Oman	188,904	-	-	-	-	**188,904**
Due from banks	9,927	12,739	19,647	7,544	1,115	**50,972**
Loans and advances	2,753,434	-	-	-	-	**2,753,434**
Investment securities	302,045	102	-	-	349	**302,496**
Intangible assets	7,210	-	-	-	-	**7,210**
Other assets	89,340	-	-	-	-	**89,340**
Property and equipment	43,303	-	-	-	-	**43,303**
Total assets	**3,394,163**	**12,841**	**19,647**	**7,544**	**1,464**	**3,435,659**
Liabilities						
Due to banks	74	7,306	5,854	-	125	**13,359**
Deposits from customers	2,797,303	13,109	-	-	-	**2,810,412**
Other liabilities	84,498	-	-	-	-	**84,498**
Taxation	3,051	-	-	-	-	**3,051**
Total liabilities	**2,884,926**	**20,415**	**5,854**	**-**	**125**	**2,911,320**

2021 Parent Company	Sultanate of Oman OMR '000	Other GCC countries OMR '000	Europe OMR '000	United States of America OMR '000	Others OMR '000	Total OMR '000
Assets						
Cash and balances with the Central Bank of Oman	105,954	-	-	-	-	**105,954**
Due from banks	15,702	11,613	19,085	6,978	1,102	**54,480**
Loans and advances	1,961,011	-	-	-	-	**1,961,011**
Investment securities	239,682	-	-	-	349	**240,031**
Investments in subsidiary	107,144	-	-	-	-	**107,144**
Other assets	59,358	-	-	-	-	**59,358**
Property and equipment	40,337	-	-	-	-	**40,337**
Total assets	**2,529,188**	**11,613**	**19,085**	**6,978**	**1,451**	**2,568,315**
Liabilities						
Due to banks	74	7,306	5,854	-	125	**13,359**
Deposits from customers	1,965,197	-	-	-	-	**1,965,197**
Other liabilities	66,064	-	-	-	-	**66,064**
Taxation	3,051	-	-	-	-	**3,051**
Total liabilities	**2,034,386**	**7,306**	**5,854**	**-**	**125**	**2,047,671**

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2020 Consolidated	Sultanate of Oman OMR '000	Other GCC countries OMR '000	Europe OMR '000	United States of America OMR '000	Others OMR '000	Total OMR '000
Assets						
Cash and balances with the Central Bank of Oman	220,975	-	-	-	-	220,975
Due from banks	33,031	6,007	14,392	18,550	858	72,838
Loans and advances	2,645,359	-	-	-	-	2,635,455
Investment securities	238,672	1,225	-	-	321	240,218
Goodwill	6,505	-	-	-	-	6,505
Other assets	69,888	-	-	-	-	69,888
Property and equipment	46,605	-	-	-	-	46,605
Total assets	3,261,035	7,232	14,392	18,550	1,179	3,302,388
Liabilities						
Due to banks	1,737	12,234	358	-	92	14,421
Deposits from customers	2,754,201	1,109	-	-	-	2,755,310
Other liabilities	76,847	-	-	-	-	76,847
Subordinated loans	20,000	-	-	-	-	20,000
Taxation	4,233	-	-	-	-	4,233
Total liabilities	2,857,018	13,343	358	-	92	2,870,811

2020 Parent Company	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Assets						
Cash and balances with the						
Central Bank of Oman	173,652	-	-	-	-	173,652
Due from banks	33,032	5,089	13,556	18,550	824	71,051
Loans and advances	1,936,806	-	-	-	-	1,936,806
Investment securities	176,314	65	-	-	321	176,700
Investments in subsidiary	107,144	-	-	-	-	107,144
Other assets	49,228	-	-	-	-	49,228
Property and equipment	42,479	-	-	-	-	42,479
Total assets	2,518,655	5,154	13,556	18,550	1,145	2,557,060
Liabilities						
Due to banks	1,737	8,384	358	-	92	10,571
Deposits from customers	2,030,762	-	-	-	-	2,030,762
Other liabilities	59,908	-	-	-	-	59,908
Subordinated loans	20,000	-	-	-	-	20,000
Taxation	4,233	-	-	-	-	4,507
Total liabilities	2,116,640	8,384	358	-	92	2,125,474

43. Customer concentration

2021 Consolidated	**Due from banks**	**Gross loans and advances**	**Investment securities**	**Deposits from customers**	**Due to banks**	**Contingent liabilities**
	OMR '000	**OMR '000**	**OMR '000**	**OMR '000**	**OMR '000**	**OMR '000**
Personal	**-**	**1,087,264**	**-**	**635,783**	**-**	**7**
Corporate	**50,972**	**1,807,192**	**60,834**	**1,188,927**	**13,359**	**195,036**
Government	**-**	**1**	**241,662**	**985,702**	**-**	**256,140**
	50,972	**2,894,457**	**302,496**	**2,810,412**	**13,359**	**451,183**

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2021 Parent Company	**Due from banks**	**Gross loans and advances**	**Investment securities**	**Deposits from customers**	**Due to banks**	**Contingent liabilities**
	OMR '000	**OMR '000**	**OMR '000**	**OMR '000**	**OMR '000**	**OMR '000**
Personal	**-**	**735,944**	**-**	**640,524**	**-**	**7**
Corporate	**54,480**	**1,329,129**	**57,532**	**890,198**	**13,359**	**161,714**
Government	**-**	**1**	**182,499**	**434,475**	**-**	**183,199**
	54,480	**2,065,074**	**240,031**	**1,965,197**	**13,359**	**344,920**

2020 Consolidated	Due From Banks	Gross loans and advances	Investment securities	Deposits from customers	Due to banks	Contingent Liabilities
	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Personal	-	1,042,859	-	976,746	-	143
Corporate	72,782	1,704,836	18,950	966,831	14,421	279,021
Government	-	-	221,738	811,733	-	191,514
	72,782	2,747,695	240,688	2,755,310	14,421	470,678

2020 Parent Company	Due From Banks	Gross loans and advances	Investment securities	Deposits from customers	Due to banks	Contingent Liabilities
	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000	OMR '000
Personal	-	722,479	-	497,680	-	143
Corporate	70,995	1,284,640	14,178	966,831	10,571	211,035
Government	-	-	162,589	566,251	-	191,514
	70,995	2,007,119	176,767	2,030,762	10,571	402,692

44. Segment information

The Bank mainly operates in only one geographical location, the Sultanate of Oman. The Bank has however earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2021. The information regarding the bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2021 and 2020 is set out in note 42.

For management purposes, the conventional operations of the Bank is organised into four operating segments based on products and services. The Islamic banking services are offered through Alizz Islamic Bank. The operating segments are as follows:

Retail banking	Individual personal loan, overdraft, credit card and funds transfer facilities.
Corporate banking	Loans and other credit facilities for corporate and institutional customers.
Treasury	Bonds, placements, bank borrowings, foreign exchange.
Others	Other central functions and Head office.
Islamic Banking	Sharia' compliant Islamic banking products and services including Ijarah, Murabaha, Mudarbah and Diminishing Musharakah.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Cash and balances with Central Bank of Oman, Certificate of Deposits, due from banks, property and equipment and other assets are unallocated assets. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2021 or 2020.

Notes to the Financial Statements
as at 31 December 2021

2021 Consolidated	Retail OMR '000	Corporate OMR '000	Treasury OMR '000	Others OMR '000	Islamic Banking OMR '000	Total OMR '000
Net interest income	26,333	24,816	9,720	7,458	-	68,327
Net income from Islamic financing	-	-	-	-	21,217	21,217
Other operating income	8,122	7,026	5,480	7,187	4,266	32,081
Total operating income	34,455	31,842	15,200	14,645	25,483	121,625
Operating expenses (incl. depreciation)	(33,186)	(22,935)	(3,706)	(465)	(18,179)	(78,471)
Net impairment losses on financial assets	(2,417)	(29,551)	(200)	-	(2,985)	(35,153)
Tax expenses	-	-	-	(983)	63	(920)
Profit (Loss) for the year	(1,148)	(20,644)	11,294	13,197	4,382	7,081
Assets	727,372	1,232,588	400,465	101,087	974,147	3,435,659
Liabilities	792,228	1,171,470	13,359	64,794	869,469	2,911,320
Allowance for credit losses	(12,711)	(94,221)	(349)	-	(37,495)	(144,776)

Notes to the Financial Statements
as at 31 December 2021

2021 Parent Company	Retail OMR '000	Corporate OMR '000	Treasury OMR '000	Others OMR '000	Islamic Banking OMR '000	Total OMR '000
Net interest income	**26,333**	**24,816**	**9,720**	**7,458**	**-**	**68,327**
Other operating income	**8,122**	**7,026**	**5,480**	**6,017**	**-**	**26,645**
Total operating income	**34,455**	**31,842**	**15,200**	**13,475**	**-**	**94,972**
Operating expenses (incl. depreciation)	**(33,186)**	**(22,935)**	**(3,706)**	**-**	**-**	**(59,827)**
Net impairment losses on financial assets	**(2,417)**	**(28,501)**	**(200)**	**-**	**-**	**(31,118)**
Tax expenses	**-**	**-**	**-**	**(983)**	**-**	**(983)**
Profit (Loss) for the year	**(1,148)**	**(19,594)**	**11,294**	**12,492**	**-**	**3,044**
Assets	**727,372**	**1,233,638**	**507,609**	**99,696**	**-**	**2,568,315**
Liabilities	**792,228**	**1,171,470**	**13,359**	**70,614**	**-**	**2,047,671**
Allowance for credit losses	**(12,711)**	**(94,221)**	**(349)**	**-**	**-**	**(107,281)**

Notes to the Financial Statements
as at 31 December 2021

2020 Consolidated	Retail OMR '000	Corporate OMR '000	Treasury OMR '000	Others OMR '000	Islamic Banking OMR '000	Total OMR '000
Net interest income	31,656	28,728	9,287	1,244	(11)	70,904
Net income from Islamic financing	-	-	-	-	10,103	10,103
Other operating income	7,907	8,119	2,871	-	2,020	20,917
Total operating income	39,563	36,847	12,158	1,244	12,112	101,924
Operating expenses (incl. depreciation)	(27,780)	(16,988)	(2,963)	(6,619)	(11,058)	(65,408)
Net impairment losses on financial assets	(1,838)	(16,025)	-	-	(704)	(18,567)
Tax expenses	-	-	-	(3,778)	-	(3,778)
Profit (Loss) for the year	9,945	3,834	9,195	(9,153)	350	14,171
Assets	716,496	1,220,310	421,403	77,571	866,608	3,302,388
Liabilities	754,540	1,276,222	30,571	43,450	766,028	2,870,811
Allowance for credit losses	(12,413)	(59,781)	(97)	-	(32,023)	(104,314)

Notes to the Financial Statements
as at 31 December 2021

2020 Parent Company	Retail OMR '000	Corporate OMR '000	Treasury OMR '000	Others OMR '000	Islamic Banking OMR '000	Total OMR '000
Net interest income	31,656	28,728	9,287	1,244	-	70,915
Net income from Islamic financing	-	-	-	-	993	993
Other operating income	7,907	8,119	2,873	-	596	19,495
Total operating income	39,563	36,847	12,160	1,244	1,589	91,403
Operating expenses (incl. depreciation)	(27,780)	(16,988)	(2,963)	(6,619)	(949)	(55,299)
Net impairment losses on financial assets	(1,838)	(16,025)	-	-	(148)	(18,011)
Tax expenses	-	-	-	(3,778)	-	(3,778)
Profit (Loss) for the year	9,945	3,834	9,197	(9,153)	492	14,315
Assets	716,496	1,220,310	528,547	91,707	-	2,557,060
Liabilities	754,540	1,276,222	30,571	64,141	-	2,125,474
Allowance for credit losses	(12,413)	(59,781)	(96)	-	-	(72,290)

45. Comparative figures

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

46. Subsequent events

There were no subsequent events for the Bank as at reporting date.

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Glossary

A

Additional Tier 1 capital ('AT1'): This capital consists of instruments issued by the Bank (e.g. Perpetual Bonds) and related share premiums that meet the criteria for inclusion in AT1 (and are not included in Common Equity Tier 1), and regulatory adjustments required in the calculation of AT1.

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

Arrears: Customers are said to be in arrears (or in a state of delinquency) when they are behind in fulfilling their obligations, with the result that an outstanding loan is unpaid or overdue. When a customer is in arrears, the total outstanding loans on which payments are overdue are described as delinquent.

B

Basel II: The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

Basel III: In December 2010, the Basel Committee issued 'Basel III rules: a global regulatory framework for more resilient banks and banking systems' and 'International framework for liquidity risk measurement, standards and monitoring'. Together these documents present the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. In June 2011, the Basel Committee issued a revision to the former document setting out the finalized capital treatment for counterparty credit risk in bilateral trades, and represents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

Basis point ('bps'): One hundredth of a per cent (0.01%), so 100 basis points is 1%. For example, this is used in quoting movements in interest rates or yields on securities.

C

Capital conservation buffer ('CCB'): A capital buffer prescribed by regulators under Basel III and designed to ensure banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should a bank's capital levels fall within the capital conservation buffer range, capital distributions will be constrained by the regulators.

Collectively assessed loan impairment provisions: Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant. This is to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

Commercial real estate loans: Includes office buildings to let, retail space, multifamily residential buildings (eg residential towers or mixed use towers covering residential and commercial), industrial or warehouse space, hotels etc. where the prospects of repayment and recovery on the exposure depend primarily upon the cash flows generated by the commercial mortgage.

Common equity tier 1 capital ('CET1'): The highest quality form of regulatory capital under Basel III that comprises common shares issued, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.

Contingent liabilities: These include standby Letters of Credit (LCs), Financial Guarantees (LGs/FGs) to third parties, Commitments to extend credit and others. The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value (the notional amount of the instrument). However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

CET1 ratio: A Basel III measure, of CET1 capital expressed as percentage of total risk weighted assets.

Contractual maturity: The date on which the final payment (principal or interest) of any financial instrument is due to be paid, at which point all the remaining outstanding principal and interest have been repaid.

Cost-to-income ratio: Represents the proportion of total operating expenses to total operating income.

Cost of risk: The ratio of net provisions to average net loans.

Countercyclical capital buffer: Regulatory capital of up to 2.5 per cent of risk weighted assets that is required to be held under Basel III rules to ensure that banks build up surplus capital when macroeconomic conditions indicate excess credit growth.

Counterparty credit risk: The risk that a counterparty defaults before satisfying its obligations under a contract.

Coverage ratio: Represents the extent to which non-performing loans are covered by impairment allowances (Stage 3 ECL).

Credit institutions: An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

Credit risk: Risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises mainly from direct lending, trade finance and leasing business, but also from products such as guarantees, derivatives and debt securities.

Credit risk mitigation: A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer deposits: Money deposited by all individuals and companies that are not credit institutions including securities sold under repurchase agreement (repo). Such funds are recorded as liabilities.

D

Debt securities: Financial assets on the Bank's balance sheet representing certificates of indebtedness of credit institutions, public bodies or other undertakings, excluding those issued by central banks.

Debt securities in issue: Debt securities in issue are transferable certificates of indebtedness of the Bank to the bearer of the certificate. These are liabilities of the Bank.

Delinquency: A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as arrears.

Deposits by banks: All deposits received from domestic and foreign banks, excluding deposits or liabilities in the form of debt securities or for which transferable certificates have been issued.

Dividend per share: Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.

Domestic systemically Important Bank ('DSIB'): These are banks defined by the Central Bank of Oman as those banks whose failure or distress may lead to significant adverse impact on the entire banking sector, the financial system and/or the economy.

Due from Banks: These are mainly placements and current account balance receivables from local and foreign banks.

Due to Banks: These are mainly placements and current account balance payable to other banks.

E

Earnings per share (EPS): An EPS is a number (generally a smallest denomination of currency e.g. for Omani Rials, the Baisas) that denotes the ordinary equity shareholders' earning per unit.

Expected Credit Loss (ECL): With IFRS 9, the calculation of provisioning has changed significantly. ECL is similar to the erstwhile provision calculations on financial assets; however, the methodology is model driven and involves various complex parameters. The weighted average of credit losses with the respective risks of a default occurring as the weights.

Exposures: Credit exposures represent the amount lent to a customer, together with any undrawn commitment.

Exposure at default ('EAD'): The estimation of the extent to which the Bank may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

External Credit Assessment Institutions ('ECAI'): For the standardised approach to credit risk for sovereigns, corporates and institutions, external ratings are used to assign risk weights. These external ratings must come from approved rating agencies, known as ECAI; namely Moody's, Standard & Poor's, Fitch and Capital Intelligence.

F

Fair value adjustment: An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.

Fair Value through Other Comprehensive Income (FVOCI): A measurement category where the difference in the FV is booked under OCI up until derecognition of the Asset/Liability.

Fair Value through Profit or Loss (FVTPL): A measurement category where the difference in the FV is posted to income statement.

Fair Value reserve: A Fair Value reserve is created by transferring all the fair value adjustments on the financial instruments as required under various IFRSs.

Free funds: Free funds include equity capital, retained reserves, current year unremitted profits and capital injections net of proposed dividends. It does not include debt capital instruments, unrealised profits or losses or any non-cash items.

Funded/ Non-funded exposure: Exposures where the notional amount of the transaction is funded or non-funded. Represents exposures where there is a commitment to provide future funding but funds have been released/not released.

G

General Reserve: A reserve maintained in order to meet any unforeseen contingencies. Transfer to this reserve is not mandatory and is at the discretion of the management to transfer an amount from current year's profits.

Guarantee: An undertaking by a party to pay a creditor should a debtor fail to do so.

H

High-quality liquid assets: Assets that are unencumbered, liquid in markets during a time of stress and, ideally, are central bank eligible. These include, for example, cash and claims on central governments and central banks. The Basel III Rules require this ratio to be at least 100 per cent.

I

IFRS: The IFRSs are standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.

Impaired loans: Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans which, while impaired, are still performing.

Individually assessed loan impairment provisions: Also known as specific impairment provisions (Stage 3 ECL). Impairment is measured individually for assets that are individually significant to the Bank. Typically, Corporate customers are assessed individually and all other accounts that do not qualify form a basis for collective assessment.

Internal Capital Adequacy Assessment Process ('ICAAP'): The Bank's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.

Investment grade: Represents a risk profile similar to a rating of BBB- or better, as defined by an external rating agency.

Interest rate risk ('IRR'): IRR arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements.

IFRIC: The IFRS Interpretation Committee supports the IASB in providing authoritative guidance on the accounting treatment of issues not specifically dealt with by existing IFRSs or IASs.

J

Jaws: The rate of income growth less the rate of expense growth. Expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws).

L

Lease liability: With the introduction of IFRS 16, the present value of future lease payments has resulted in creation of Lease liability, which is an 'On-Balance Sheet' item of liabilities.

Legal reserve: In accordance with Article 106 of the Commercial Companies Law of 1974, as amended of the Sultanate of Oman, the Bank is required to transfer 10% of its profit after tax for the year to legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. This reserve is not available for distribution.

Legal risk: The risk of financial loss, sanction and/or reputational damage resulting from contractual risk (the risk that the rights and/or obligations within a contractual relationship are defective); dispute risk (the risk due to an adverse dispute environment or the management of potential or actual disputes); legislative risk (the risk that the Bank fails to adhere to laws of the jurisdiction in which it operates); and non-contractual rights risk (the risk that the Bank's assets are not properly owned or are infringed by others or the infringement by the Bank of another party's rights).

Level 1 – quoted market price: Financial instruments with quoted prices for identical instruments in active markets.

Level 2 – valuation technique using observable inputs: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Leverage ratio: A measure, prescribed by regulators under Basel III, which is the ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure. This supplementary measure to the risk-based capital requirements is intended to constrain the build-up of excess leverage in the banking sector.

Line of credit: Credit A Line of Credit or Revolving Line of Credit facility is a kind of facility received from a financial institution (generally a bank), that provides stand by loans. These facilities become 'On-Balance' visible upon draw down, until then these are 'Off-Balance Sheet' and carry only commission without any associated interest.

Liquidity and credit enhancements: Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through overcollateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing commercial paper.

Liquidity coverage ratio ('LCR'): The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. The LCR is still subject to an observation period and review to address any unintended consequences.

Liquidity risk: The risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Loans and advances: This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument.

Loans to banks: Amounts lent to credit institutions including securities bought under reverse repurchase agreement (repo).

Loans to individuals: Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays and other consumer uses.

Loan-to-value ratio: The loan-to-value ratio is a mathematical calculation that expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loans past due: Loans on which repayments are overdue.

Loss given default ('LGD'): LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M

Market risk: The risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce income or portfolio values.

Medium term notes ('MTN's'): Issued by corporates across a range of maturities. Under MTN Programmes notes are offered on a regular and continuous basis to investors.

N

Net asset value per share: Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

Net exposure: The aggregate of loans and advances to customers/loans and advances to banks after impairment provisions, restricted balances with central banks, derivatives (net of master netting agreements), investment debt and equity securities, and letters of credit and guarantees.

Net interest income (NII): The amount of interest received or receivable on assets net of interest paid or payable on liabilities.

Net interest margin (NIM): The margin is expressed as net interest income divided by average interest-earning assets.

Net stable funding ratio ('NSFR'): The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. Available stable funding would include items such as equity capital, preferred stock with a maturity of over one year and liabilities with an assessed maturity of over one year. The NSFR is still subject to an observation period and review to address any unintended consequences.

Non-performing loans ('NPLs'): A nonperforming loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is:

• Renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; or

• Renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation and against which no loss of principal is expected.

Normalised net income: Profit attributable to ordinary shareholders as adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent and other infrequent and/or exceptional transactions that are significant or material in the context of the Bank's normal business earnings for the period.

O

Operational risk: The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

Over-the-counter ('OTC'): A bilateral transaction (e.g. derivative) that is not exchange traded and that is valued using valuation models.

P

Perpetual Tier 1 capital bonds: Tier 1 bonds constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity. The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion at Call Dates or on any interest payment date thereafter subject to the prior consent of the regulatory authority. The bonds carry a fixed coupon rate payable in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and Central Bank of Oman regulation.

Pillar 1: The first Pillar of the three pillars of Basel II/Basel III which provides the approach to calculation of the minimum capital requirements for credit, market and operational risk.

Pillar 2: Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.

Pillar 3: Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

Probability of default ('PD'): PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Profit attributable to ordinary shareholders: Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

R

Renegotiated loans: Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset and are defined as forborne loans. In other cases, renegotiation may lead to a new agreement, which would be treated as a new loan.

Repo/Reverse repo: A repurchase agreement or repo is a short-term funding agreement which allows a borrower to sell a financial asset, such as asset backed securities or government bonds as collateral for cash. As part of the agreement, the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Reputational risk: The risk that illegal, unethical or inappropriate behavior by the Bank itself, members of staff or clients or representatives of the Bank will damage the reputation, leading, potentially, to a loss of business, fines or penalties.

Residential mortgage: A loan that is granted to a bank's customers which is secured by the collateral of residential property that is either self-occupied or is generating rental income wherein the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the residential mortgage. The residential property should be wholly mortgaged in favor of the bank.

Retail loans: Money lent to individuals rather than institutions. This includes both secured and unsecured loans such as mortgages and credit card balances.

Return on average equity: Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.

Return on risk-weighted assets: Operating profit (excluding civil monetary penalty, goodwill impairment and own credit) divided by average total risk-weighted assets.

Right of use assets (ROU): With the introduction of IFRS 16, the usability of leased asset has resulted in creation of ROUs. Right of use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for any re-measurement of lease liabilities.

Risk appetite: The aggregate level and types of risk a firm is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

Risk-weighted assets ('RWA's'): A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the Supervisory Regulatory Authority.

S

Secured (fully and partially): A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Bank is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.

Segment: A Segment is a unit / line of business that contributes to majority or significant portion of assets, liabilities or revenues. Accordingly, the Bank has identified Retail Banking, Corporate Banking, Treasury, Head Office & Support and Islamic Banking as Segments.

Senior debt: Senior debt, frequently issued in the form of senior notes, is debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

Standardised approach: In relation to credit risk, a method for calculating credit risk capital requirements using ECAI ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to a supervisory defined gross income.

Stressed value at risk: A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.

Structured entities ('SE's'): An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Structured finance/notes: A structured note is an investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.

Subordinated debts/bonds: A debt, which in the event of insolvency or liquidation of the issuer are subordinated to the claims other creditors.

Subordinated debt/bond reserve: The reserve, which is created by transferring an annual equal proportion subordinated debts, out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated loans which are due to mature within five years. The reserve is available for transfer back to retained earnings upon maturity of the subordinated loans.

T

Tier 1 capital ('T1'): A component of regulatory capital, comprising CET1 and AT1.

Tier 1 capital ratio: Tier 1 capital as a percentage of risk-weighted assets.

Tier 2 capital ('T2'): Tier 2 capital includes instruments issued by the Bank that meet the supervisory definition of T2, the related share premium resulting from such issue, certain loan loss provisions (ECL) less any supervisory deductions and adjustments.

Total eligible capital: Sum of T1 and T2 after regulatory adjustments.

V

Value-at-risk ('VaR'): A measure of the loss that might occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

W

Wholesale loans: Money lent to sovereign borrowers, banks, non-bank financial institutions and corporate entities.

Write-off: When a financial asset is written down or written off, a customer balance is partially or fully removed, respectively, from the balance sheet. Loans (and related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

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