EXPERIENCE THE NEXT LEVEL OF BANKING

ANNUAL REPORT 2021

www.banknizwa.om

بنك نزوى
Bank Nizwa

As the leading and most trusted Islamic bank in the Sultanate, Bank Nizwa presents the most innovative Sharia Compliant banking, offers seamless customer service, and embraces a progressive attitude toward change.

We have positioned ourselves to become the preferred Islamic banking partner by focusing on developing a top-notch digital infrastructure to offer a comprehensive list of solutions across multiple e-channels. As the fastest growing Islamic financial institution in the Sultanate, Bank Nizwa's services include online and mobile banking aimed at putting innovative financial services at the fingertips of its growing customer base.

Through our commitment to creating value for clients and shareholders, Bank Nizwa has grown consistently in our core business. As a result, shareholder equity has grown by 51%. The bank is geared up for exponential growth after successfully completing its rights issue of OMR 70 million. Driven by healthy activities across businesses and prudent cost management, the bank has also registered a 15% growth in operating income when compared to the same period in the last year.

In line with the well-prepared 2025 growth strategy for Bank Nizwa, we will continue to focus on strengthening the balance sheet, diversifying revenue streams, controlling expenses, improving margins, enhancing digital capabilities and expanding the customer base.

Bank Nizwa, a leading player in this sector, will continue to promote Islamic banking and contribute to Oman's economic prosperity by achieving the objectives outlined in its Vision 2040 plan.

His Majesty Sultan Qaboos bin Said

May his soul rest in peace

His Majesty
Sultan Haitham bin Tarik

Contents

Board of Directors

Sheikh Khalid Abdullah Ali Al Khalili
Chairman

Mr. Musabah Saif Musabah Al Mutairy
Vice Chairman

Sayyid Amjad Mohammed Ahmed Al Busaidi
Member

Sheikh Saif Hilal Nasser Al Mawali
Member

Sheikh Majid Ali Majid Al Mamri
Member

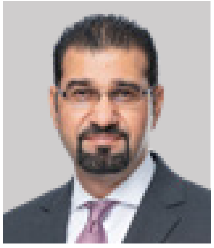
Mr. Hussain Yousef Dawood Al Shalwani
Member

Mr. Ishaq Zayed Khalifa Al Mawali
Member

Mr. Sami Yahya Hamed Al Dughaishi
Member

Mr. Atif Said Rashid Al Siyabi
Member

Executive Management Team



Mr. Khalid Jamal Al Kayed
Chief Executive Officer

Mr. R. Narasimhan
General Manager
Wholesale Banking

Mr. Nasser Said Al Lamki
General Manager
Internal Audit

Mr. Mohamed Fida Hussain
General Manager Risk Management
and Chief Risk Officer

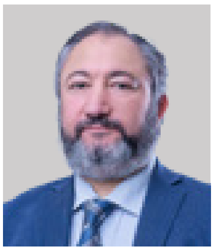
Mr. Mujahid Said Daud Al Zadjaly
General Manager IT & Operations

Mr. Arif Maqbool Al Zaabi
Assistant General Manager
Retail Banking

Mr. Salim Rashid Ali Al Maharbi
Chief Financial Officer

Ms. Haifa Abdul Ali Al Lawati
Assistant General Manager HR
- Chief Human Resources Officer

Mr. Tariq Mohammed Osman
Head of Legal Department
and Board Secretary



Dr. Mansoor Ali Al Qudah
Head of Sharia

H.H. Sayyida Wisam Jaifer Al Said
Head of Marketing &
Corporate Communications

Mr. Mohammed Al Hashmi
Head of Compliance

Other Senior Members

Mr. Khalid Al Barwani,
Deputy General Manager
Wholesale Banking

Mr. Saif Abdullah Al Rawahi
Assistant General Manager
Investment, Treasury, Government
Relations and Project Finance

Mr. Abdul Ghafoor Al Balushi
Assistant General Manager,
SME and International Banking

Mr. Ahmed Abdullah Al Waily
Senior Manager
Corporate Communications

Financial Highlights

GROWING SHAREHOLDERS' WEALTH

2020	2021
8.0%	50.2%

Growth in Equity

GROWING REACH OF ISLAMIC FINANCE

2020	2021
19%	13%

Growth in Financing

TRUSTED BANK OF THE COMMUNITY

2020	2021
16%	20%

Growth in Deposits

GROWING MARKET SHARE

2020	2021
17%	16%

Growth in Assets

Financial Highlights

EFFICIENT OPERATIONS

2020 | 2021
0.99% | 0.96%

Return on Assets

GROWING RETURN ON INVESTMENTS

2020 | 2021
7.20% | 6.27%

Return on Equity

MORE VALUE TO SHAREHOLDERS

2020 | 2021
8.72% | 13.18%

Growth in Net Profit

STRONGER BANK

2020 | 2021
12.78% | 17.85%

CET 1 Ratio

Chairman's Report

Sheikh Khalid bin Abdullah bin Ali Al Khalili

Dear Shareholders,

Assalamu'alaikum Wa Rahmat Allah Wa Barakatuh,

On behalf of the Board of Directors of Bank Nizwa SAOG, I am pleased to present to you the Financial Statements and Auditor's Report for the financial year ended 31st December 2021.

The global economy's recovery from the COVID-19 pandemic continues. As public health restrictions are lifted, economic activity is resuming in the country. The government is continuing its pace with regional and global changes, generating and seizing opportunities to foster economic competitiveness, social well-being, growth and confidence.

In 2021, Bank Nizwa once again demonstrated the strength of its business and the resilience and talent of its people. Throughout the year, the Bank supported thousands of its customers, the community, and the economy overall. Our colleagues lived our purpose and worked tirelessly to operate the Bank and deliver to all our stakeholders.

I would like to pay a tribute to our frontline health and safety workers and Ministries for the support in the vaccination efforts. In addition,, the continuous guidance from Central Bank of Oman, Capital Market Authority, and the Supreme Committee, helped the Bank's leadership team to act quickly and effectively by meeting customer needs and supporting the delivery of the Governments' relief initiatives.

Over the past several years, we have focused on providing our customers a great sharia compliant banking experience, ensuring that they have the right tools and advice to succeed, while creating value for our shareholders. Our commitment to our customers and the community at large gained strength from the swift and decisive action of Oman's wise leadership. Guided by our purpose to help clients thrive and the measures introduced by the Central Bank of Oman, the bank was able to ensure the financial wellbeing of individuals and businesses. We have provided profit and principal deferral support to customers who were affected by the Pandemic and Cyclone Shaheen while many other customers have benefited through waiver of fees and other support. I am proud that Bank Nizwa played its part in supporting customers and the economy by providing necessary support as well as actively participating in community initiatives.

Throughout the year, the Bank's leadership team has continued to deliver our strategic priorities. Focusing on becoming a bank that offers simpler and more efficient solutions. We strengthened the Bank's foundation through investments in people, processes, technology, and products. We have made substantial progress on achieving our target, led with a heightened sense of focus on delivering long-term value for our employees, clients, communities, and shareholders.

The strong financial results we achieved are a testament to the ambition we have as the First and leading Sharia-compliant bank in the Sultanate and our adherence to a strong and clear strategy, as well as our philosophy to go beyond excellence. The most encouraging developments in the year include the Bank's record net profit, completion of our core capital raising plan to support our second phase of growth, and our recognition as 'Best Performing Company (Large Cap)' by AIWA awards; Best Islamic Bank in Oman by IFN; Best Islamic Bank in Oman, by The International Finance Magazine; and GIFA Championship Award (Islamic Banking) 2021 among others.

These achievements reflect our position as the largest and fastest-growing full-fledged Islamic Bank in the Sultanate. In this message, I am pleased to highlight the progress we made in 2021 towards achieving our strategic ambitions and to set out our plans for 2022 and onwards.

During the year, the Bank completed its planned core capital raising exercise to support its 'strategy 2025', which focuses on asset quality, financial performance, technological advancement, market share, team and culture. We want to be a stronger Islamic Bank with a higher market share. The Bank has already embarked upon the next phase of growth to deliver more value to our stakeholders.

The Islamic finance sector in Oman has witnessed significant growth and we are proud to have maintained our position as the leading and most trusted Islamic bank in the country. Strong and sustainable long-term financial performance drives our capability to grow. Our success has opened various growth opportunities amongst which is the recent receipt of a letter of intent for a potential merger with Sohar International. The Central Bank of Oman has since approved our requests to initiate the process of due diligence for both banks, and now we are evaluating the feasibility of the transaction. Any progress will be as per the regulatory requirements and accordingly investors will be informed through MSX as and when there are any material updates.

Financial Performance

Our financial results this year demonstrate the underlying strengths of our business, as well as the impacts of the coronavirus pandemic. The business performed relatively well in 2021, with an intense focus on operational excellence, driving growth in our core banking businesses.

Prudent balance sheet management underpinned the Bank's resilient funding and liquidity positions. Strong credit discipline resulted in a net profit for the year of 12.5 Million Omani Riyals, compared to 11 Million Omani Riyals in 2020, registering a growth of 13% year-on-year. An overview of the results of 2021 reveals that we have achieved remarkable growth rates in all the financial indicators. The total assets rose by 16%, reaching 1.4 Billion Omani Riyals, the total portfolio of financing grew by 13% to reach 1.1 Billion Riyals Omani, total customers' deposits rose by 20%, reaching 1.1 Billion Riyals Omani, and the total shareholders' equity grew by 50% (7.8% without the capital injection) to reach 240 Million Omani Riyals.

This results from executing our 2021 ambition, harnessing our financial expertise and strength to build value, and our ability to adapt to the economic realities, including the competitive environment in which we operate. The whole is underpinned by strong governance practices while focusing on our commitment to provide unsurpassed customer experience and adhering to the core values that formed our institution.

Future Outlook

Real GDP growth in developed markets largely exceeded expectations in Q4-2021, indicating that economies are getting better at coping with the stresses induced by the COVID-19 pandemic crisis. Similar is the situation in Oman, given the speed with which governments implemented vaccination and booster dose programs, the reforms the government is introducing, the strategic policy initiatives and the measures taken will support the recovery from the effects of the pandemic on economic activity. It is our opinion that the country is on the path towards development and prosperity.

With the start of the year, oil markets appear to be in a strong position. Inventories are falling, and demand indicators are pointing upward, albeit modestly. Higher oil prices and significant progress with COVID-19 vaccine globally supports the bright outlook for the GCC economies this year. OPEC expects world oil demand might rise even more steeply in 2022 as the global economy posts a strong recovery from the pandemic, a development that would underpin prices already at a seven-year high. Tight oil supply has also given impetus to booming energy markets. On the back of growing demand, and reopening of global economies, we expect the oil markets to perform well through 2022.

With the ongoing implementation of the Medium-Term Fiscal Plan by the Government of Oman, and steady decline in the direct government debt burden to around 60% of GDP by 2024, all three major rating agencies, Moodys, S&P and Fitch have upgraded the outlook of the country. This is due to the policies and procedures undertaken by the Sultanate to address economic and health challenges, coupled with improved oil prices leading to a decline in fiscal deficits and net government debt over the next three years.

Oman has embarked upon a development program aimed at shifting the economy to a more private sector footing by encouraging investment and pushing the private sector to lead and revitalize the economy. This is to be done through Public Private Partnerships, maintaining safe and sustainable levels of public spending, continuing efforts to raise non-oil revenue contribution, and providing priority to the implementation of projects related to the productive sectors. The government initiatives and reforms in revenue collection will continue yielding results, which will help mitigate vulnerabilities and alleviate pressure on public finances. All these initiatives will support structural reforms to boost growth, employment, and foster economic diversification. The planned completion of major infrastructure projects is expected to raise non-hydrocarbon growth over the medium term gradually and will increase demand for credit. As per IMF, a medium-term global economic growth of 3.3% and forecasting Oman's GDP to about 3% average growth over the medium term.

The outlook for 2022 is favourable and optimistic supported by an improvement in government revenues. While numerous sectors expect growth, such as manufacturing, healthcare, technology, communication, mining, sustainable energy, fisheries, food, trade and other services, the banking sector will continue to capitalize on its key competitive advantages to show further resilience in a volatile global economic backdrop.

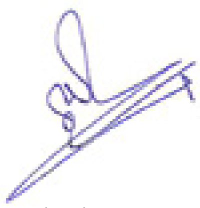
As demonstrated in 2021 that Bank Nizwa has a resilient balance sheet, and a strength to adapt and will remain focused on delivering for clients, employees, communities, and shareholders. We are committed to spearheading Islamic finance's growth and solidifying our leadership in the sector, leading the market share towards new heights. The increase in our core capital will help shape the Bank for the future and generate organic earnings. Indeed, when combined with the Bank's prudent risk management, diversified business mix and proven ability to steer through significant headwinds, the Board remain confident in the Bank's growth strategy.

We are fully confident that the Bank is on the right track to capture future opportunities, support sustainable growth, and maximize shareholder value.

Acknowledgment

On behalf of the Board of Directors, Executive Management and staff, I would like to express our sincere gratitude to His Majesty Sultan Haitham bin Tarik Al Said, for his foresight and visionary leadership that continues to advance the nation and the banking sector in particular. Special thanks are also extended to the Central Bank of Oman, and the Capital Market Authority for their invaluable guidance and support.

I also want to thank our shareholders for their ongoing support; our customers for the opportunity to serve them every day; and our employees for their continued hard work and commitment to providing legendary service to our customers. We look forward to continuing to earn and sustain your trust in 2022.



Khalid bin Abdullah bin Ali Al Khalili
Chairman

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Private and confidential
Our ref: aud/rp/zh/5050/22

Agreed upon procedures on Code of Corporate Governance of Bank Nizwa SAOG

To the Board of Directors of Bank Nizwa SAOG

Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting Bank Nizwa SAOG (the "Bank") for submission of agreed upon procedures report on the compliance with the Code of Corporate Governance (the "Code") to Capital Market Authority ("CMA") to assist in compliance of requirements 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

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

Bank (also the Responsible Party) are 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 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.

CR No. 1358131
Tax Card No. 8063052

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 our engagement letter, on the compliance with the Code:

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 found.
(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 procedure above, we inquired from and obtained written representation from management and those charged with governance for non-compliance with the Code for the year ended 31 December 2021.	No exceptions found.

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
Children's Public Library Building
4th floor, Shatti Al Qurum
P O Box 641, PC 112
Sultanate of Oman
CR.No: 1358131

Corporate Governance Report

The Board of Directors of Bank Nizwa SAOG ("Bank Nizwa" or the "Bank") is committed to the highest standards of Corporate Governance as set out in the letter and spirit of the Code of Corporate Governance laid out by the Capital Market Authority (CMA) and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (CBO).

Corporate Governance is the system of rules, practices and processes by which the Bank is directed and controlled. Corporate governance essentially involves balancing the interests of them any stakeholders in the Bank - these include its shareholders, management, customers, suppliers, financiers, the government and the community. Since corporate governance also provides the framework for attaining the Bank's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

The CMA Code of Corporate Governance for Public Listed Companies and the CBO circular BM 932, Corporate Governance of Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Bank Nizwa complies with all of their provisions. The CMA Code of Corporate Governance can be found at the following website: www.cma.gov.om. Corporate Governance has also been defined more narrowly as the relationship of an entity to its shareholders; or more broadly as its relationship to society.

Board of Directors

The Board of Directors (the "Board") of the Bank were elected by the Shareholders during the Annual General Assembly that took place on March 28, 2019 for a period of three years, except for Mr. Atif Al Siyabi who was appointed in the last AGM on March 28, 2021.

The Board is responsible for overseeing the Bank's management and business affairs and makes all major policy decisions for the Bank.

The Board is responsible for approving the financial statements of the Bank, and the overall compliance of the Bank with the applicable rules and regulations. The Board continuously protects and enhances shareholders' value by looking after the Bank's overall corporate governance. The Board members have acknowledged that they shall, during the term of the Board, remains compliant with the applicable rules and regulations, and they shall inform the Bank of any changes in their status which might affect their category or status. The Bank follows Commercial Company law where the process of nomination of directors is stipulated clearly. The Bank's Board's principal responsibilities are as follows:

- Appointing key executives with integrity, technical and managerial competence and appropriate experience, and deciding their compensation package;
- Overseeing succession planning and replacing key executives when necessary;
- Reviewing key executive and Board remuneration packages and ensuring such packages are consistent with the Bank's corporate values and strategy;
- Ensuring a formal and transparent Board nomination process;
- Effectively monitoring and evaluating management's performance in implementing agreed strategy and business plans, and ensuring that appropriate resources are available;
- Approving budgets, reviewing performance against those budgets and deciding on the future strategies and plans;
- Meeting regularly with senior management and respective Board Committees to establish and approve policies and review key developments;
- Identifying, understanding and measuring the significant risks to which the Bank is exposed in its business activities; and
- Board members shall independently assess and question the policies, processes and procedures of the Bank, with the intent to identify and initiate management action on issues requiring improvement (i.e. to act as checks and balances on management). Procedures may be defined to appoint advisors or external experts to assist Board members in effectively discharging their responsibilities.
- Approve financing transactions as per Delegation of Authority Matrix.

Composition & Classification of the Board

Bank Nizwa is represented by nine Directors, where all of them are non-executive Directors.

Composition & Classification of the Board			
Name of Director	Category	Represents	No. of Other Directorship
Sheikh Khalid Abdullah Ali Al-Khalili	Non-Executive	Aflag Investments	3
Musabah Saif Musabah Al-Mutairy	Non-Executive	Non-Representative	1
Sayyid Amjad Mohammed Ahmed Al Busaidi	Non-Executive	Non-Representative	1
Hussain Yousef Dawood Al-Shalwani	Non-Executive	Non-Representative	0
Sheikh Saif Hilal Nasser Al-Mawali	Non-Executive	Non-Representative	0
Sami Yahya Hamed Al-Dughaishi*	Non-Executive	Civil Services Pension Fund	1
Ishaq Zayed Khalifa Al Mawali*	Non-Executive	PASI	2
Sheikh Majid Ali Majid Al Mamri	Non-Executive	Non-Representative	0
Atif Said Rashid Al Siyabi	Non-Executive	Non-Representative	0

*The director does not fall under any other dependence scope duly highlighted under the Eighth Principle of the CMA Code of Corporate Governance for Public Listed Companies

Profile of the Current Board of Directors

Sheikh Khalid Abdullah Ali Al Khalili - Chairman

Sheikh Khalid Al Khalili has over 21 years of experience in various fields. He is a graduate in Civil Engineering from Florida Institute of Technology, USA. He is the Chairman of Aflag Group, a diverse group of operating companies. In the past, he has held various senior management positions, involving varied business disciplines which include finance, project management and real estate development.

Sheikh Khalid is the Deputy Chairman of the board of directors in OMNIVEST SAOG and member of the Board's Executive Committee and Nomination & Remuneration Committee. In addition, he is the Chairman of the board of Al Ahlia Insurance Co. SAOG. Moreover, Sheikh Khalid is a member of the Board of Omantel SAOC and its Investment and Strategy Committee.

Mr. Musabah Saif Musabah Al Mutairy – Vice Chairman

Mr. Al Mutairy has 27 years of experience in the areas of investment, finance, and accounting. Mr. Al Mutairy is a Member of several Boards, including Member of the Investment Committee of Royal Guard of Oman Pension Fund, a Member of the Board at Hotels Management Co. International, Oman Ammunition Co., Khaleeji Commercial Bank, Takaful Oman, Oman National Investments Development Company, United GCC fund and Bank Muscat Money Fund.

Mr. Al Mutairy holds a bachelor's degree in Accounting and a Master of Business Administration in Finance. In addition, he holds several internationally recognized accounting qualifications.

Sayyid Amjad Mohammed Ahmed Al Busaidi – Member

Sayyid Amjad is currently The Director General of Administrative, Financial and Human Resources at the Diwan of Royal Court. He has served as the Executive President at the Diwan of Royal Court Pension Funds, and as Deputy Director General at the Directorate General of Financial Affairs. His list of memberships include coveted positions such as Chairman of Oman Qatari Telecommunications Company (Ooredoo). He holds a Masters of Business Administration degree from Southern Cross University, Australia.

Mr. Hussain Yousef Dawood Al Shalwani – Member

Mr. Hussain is currently serving as director on the Board of Horizon Capital Market, Horizon Capital Funds and Bank Nizwa. He was previously a board member at Bank Sohar and played an active role its set up. Moreover, he was also founding committee member of Al Tawasul Financial and Investment Services.

Mr. Hussain has earned a Bachelor's degree with over 35 years of experience, holding various posts related to finance and investment in prestigious organizations like Al Ghadeer Investments, United Securities, Al Mawarid Securities, Qurum Investments etc.

Sheikh Saif Hilal Nasser Al Mawali – Member

Sheikh Saif has a very professional career path including his high level experience over 20 years accompanied with his Bachelor degree in Economics from Arkansas University in the United States of America. He has worked for the Sultanate of Oman Ministry of Commerce and Industry in the Directorate General of Organizations and Foreign Relations.

He has served as a Senior Customs Clearance Officer at Sultan Qaboos Sea Port as well as the Customs Liaison Officer for the regional office for MENA and Near East Region. As a key member of Free Trade Agreement negotiations between Oman and United States of America and as well with many other countries in Free Trade. Sheik Saif Al Mawali is an accredited expert for the MERCATOR program which assists governments in implementation of the WTO Trade facilitation Agreement and strategic planning. He has held other key positions within the burgeoning logistics sector in Oman as an associate of Tanfeedh Program.
Sheikh Al Mawali has extensive experience in and across the private sector, as he has successfully overseen the development of various real estate and culture renewal projects in Oman and the region. And being a Board member in Bank Nizwa also has added to his depth of knowledge to private sector and his boost strength decision making skills.

Mr. Sami Yahya Hamed Al Dughaishi – Member
Mr. Sami holds prestigious masters in Financial Risk Management (FRM) from University of Glasgow, UK. He is currently serving as a Deputy director General for Operation in Civil Service Employees Pension fund. Other than Bank Nizwa, he is currently serving as a director on the board of United Power Company SAOG. Moreover, has served as director on the board of Oman Housing Bank, Ubar Hotels and Resorts and Oman National Engineering and Investment Company.

Mr. Ishaq Zayed Khalifa Al Mawali – Member
Mr. Ishaq is serving as director of Shell Oman Marketing SAOG, National Gas SAOG and Tanmia SAOC, along with Bank Nizwa. Currently, he is serving as Head of Asset Management- International and Acting Investment Director at Public Authority for Social Insurance.

He has Masters in Finance from Melbourne University, Australia and around 22 years of diverse experience in funds and asset management companies, including State General Reserve Fund (SGRF), Public Authority for Social Insurance (PASI) and Oman Airport Management Company (OAMC).

Sheikh Majid Ali Majid Al Mamri – Member
Sheikh Majid is currently leading Operations of Al Ghadeer Investments as General Manager. He has a vast experience of more than 11 years in banking, construction, managing real estate and properties, along with exposure of strategic analysis and decision making.

Mr. Atif Al Siyabi – Member
Eng. Atif bin Said Al-Siyabi is the Chief Information Management at the Oman Investment Authority (OIA) in the Sultanate of Oman. His track record extends to more than 17 years in Information Technology and business transformation. His experiences vary from hands-on experience leading innovative technology solutions and system operations to transforming business operations and driving technological advancements. He is involved in various investment initiatives in the ICT sector, where he has been leading numerous assignments, devising comprehensive strategies, and delivering several ICT projects at the national level. He earned a Bachelor of Engineering in Computer Hardware and Networking Technology (Hons) from Coventry University and a Master of Business Administration from Franklin University. He also attained Professional Leadership Development Certificate from HEC Paris.

Meetings and Remuneration of the Board and Management

The Board meets regularly, to discharge its duties, monitor the executive management, and exercise necessary control over the Bank's functioning. The Board conducts its business in formal meetings. In Board meetings, the "majority" is computed as the absolute majority of the Directors present in person. During the financial year ended December 31, 2021, the board has conducted 7 meetings.

The attendance schedule of the meetings conducted during this year, and each Board member's attendance is as per the following:

Board Meeting Attendance for the Year 2021							
Name of Director	**28-Jan**	**03-Mar**	**29-Apr**	**29-Jul**	**28-Oct**	**24-Nov**	**26-Dec**
Sheikh Khalid Abdullah Ali Al-Khalili	✔	✔	✔	✔	✔	✔	✔
Sheikh Musabah Saif Musabah Al-Mutairy	✔	✔	✔	✔	✔	✔	✔
Sayyid Amjad Mohammed Ahmed Al-Busaidi	✔	✔	✔	✔	✔	✔	✔
Mr. Hussain Yousuf Dawood Al-Shalwani	✔	✔	✔	✔	✔	✔	✔
Sheikh Saif Hilal Nasser Al-Mawali	✔	✔	✔	✔	✔	✔	✔
Mr. Sami Yahya Hamed Al Dughaishi	✔	✔	✔	✔	✔	✔	✖
Mr. Ishaq Zayed Khalifa Al Mawali	✔	✔	✔	✔	✔	✔	✔
Sheikh Majid Ali Majid Al Mamri	✔	✔	✔	✔	✔	✔	✔
Mr. Atif Al Siyabi	N/A	N/A	N/A	✔	✔	✔	✔

Apart from regular board meetings, all members attended Annual General Meeting of the Bank, held on March 28, 2021.

Board of Director has received an amount of RO 86,500 as sitting fees for the year ended December 31, 2021, which includes the Board sub-Committees, where the sitting fees per each Director did not exceed RO 10,000 as per the guidelines of CMA. Apart from sitting fees, the Board was given remuneration of RO 126,000 during the year.

The total remuneration received by the top 5 Executives in Management during the year ended December 31, 2021 is RO 1,127,159. Members of Executive Management are hired in compliance with Labor regulations (permanent position for Omanis and 2-year contract for Non-Omanis). Executive Management has a notice period of 3 months or more, unless if promoted to the level from below AGM position, in which case notice period is 1 month. There is no severance payment in Management's employment contracts.

Committees of the Board

The Board of Directors has created various sub-committees for specific purposes with the clearly defined term of reference and responsibilities. The committees' mandate is to ensure focused and specialized attention to specific issues related to the Bank's governance. The various committees of the Board together with the Internal Audit, Risk and Compliance Department form an important tool in the process of corporate governance.

Board Executive Committee

The members of the Board Executive Committee are playing an increasingly important role to ensure that the financing exposures and investments conform to the respective policies of the Bank and to ensure implementation of the Business Strategy, Policies and Procedures of the Bank.

Executive Committee	
Name of Members	**No. of Meetings Attended**
Sheikh Khalid Abdullah Ali Al Khalili - Chairman	4
Sheikh Saif Hilal Nasser Al Mawali - Member	4
Sheikh Majid Ali Majid Al Mamri - Member	4
Mr. Sami Yahya Hamed Al Dughaishi - Member	4
Total Number of Meeting Held During the year:	**4**

Board Audit Committee

The main functions of the Audit Committee are to assist the Board in discharging its oversight responsibilities for the financial reporting process, reviewing the effectiveness of the Bank's internal financial control including accounting policies and changes thereto and review of annual and quarterly financial statements prior to publication in order to ensure their balance, transparency and integrity.

The Audit Committee also reviews the effectiveness of the internal audit function; the independent external audit process including recommending the appointment and assessing the performance of the external auditors as well as specifying their fees and the Bank's process for monitoring compliance with local laws and regulations affecting financial reporting.

Audit Committee	
Name of Members	**No. of Meetings Attended**
Sayyid Amjad Al Busaidi - Chairman	5
Mr. Hussain Al Shalwani - Member	5
Mr. Musabah bin Saif Al Mutairy - Member	5
Total Number of Meeting Held During the year:	**5**

Board Remuneration & Nomination Committee

The role of the Board Remuneration & Nomination Committee is to review and approve the selection criteria and appointment procedures for the Chief Executive Officer, Senior Management and any other key position as may be determined by the Board of Directors or the applicable laws, rules and regulations. The Committee also ensures application of the remuneration framework for the Chief Executive Officer, Senior Management and any other key position as may be determined by the Board of Directors or the applicable laws, rules and regulations.

Remuneration & Nomination Committee	
Name of Members	**No. of Meetings Attended**
Sheikh Saif Hilal Nasser Al Mawali - Chairman	5
Sheikh Khalid Bin Abdullah Bin Ali Al Khalili – Member	5
Mr. Ishaq Zayed Khalifa Al Mawali – Member	5
Mr. Sami Yahya Hamed Al Dughaishi – Member	5
Total Number of Meeting Held During the year:	**5**

Board Governance, Risk and Compliance Committee

The Board Governance, Risk and Compliance Committee's (BGRCC) primary function is to assist the Bank's Board of Directors in fulfilling its governance, compliance and risk management responsibilities as defined by applicable laws, Central Bank of Oman regulations and the Bank's internal regulations. As such, the BGRCC exercises the authority and power delegated to it by the Board. The BGRCC's function is one of oversight, recognizing that Top Management is responsible for executing the Bank's risk management policies. BGRCC will neither be involved in the day-to-day management of risk nor in assessing / approving single transactions regardless of amount or risk level.

Governance, Risk & Compliance Committee	
Name of Members	**No. of Meetings Attended**
Shaikh Musabah bin Saif Al Mutairy - Chairman	4
Mr. Hussain Yousef Dawood Al Shalwani – Member	4
Mr. Ishaq Zayed Khalifa Al Mawali– Member	4
Mr. Atif Al Siyabi	3
Total Number of Meeting Held During the year:	**4**

Board Information Technology & Cyber Security Committee

The Board Information Technology Committee (BITC) was formed during the year 2021, upon approval by the Board of Directors. Its primary responsibility is to overlook bank's information technology and electronic banking strategies, policies and framework. It also oversight bank's information and cyber security functions and bank's risk appetite management in relation to e banking and technology. BITC's oversight includes bank's all digitalization activities and initiatives as well.

Information Technology Committee & Cyber Security Committee	
Name of Members	**No. of Meetings Attended**
Mr. Atif Al Siyabi - Chairman	3
Mr. Ishaq Zayed Khalifa Al Mawali – Member	3
Sheikh Majid Ali Majid Al Mamri - Member	3
Total Number of Meeting Held During the year:	**3**

Major Shareholders

Bank Nizwa was incorporated with a capital of RO 150 million. A further RO 70 million were raised through rights issue during the year 2021. The Bank's shares are listed on the Muscat Stock Exchange. The Shareholders, holding more than 5% as on December 31, 2021 are tabulated hereunder:

Major Shareholders	%
Aflag Investments	35
Civil Service Employees' Pension Fund	8.16308
Public Authority For Social Insurance	7.49823
Al Ghadeer Investment	5.36444
Diwan of Royal Court Pension Fund	5.21277
Total	**61.23852**

Bank Nizwa Share Price Movements

DATE	Bank Nizwa Share Performance			Average MSX 30 Index	Financial Sector Performance at MSX		
	HIGH	LOW	CLOSE		HIGH	LOW	CLOSE
Jan-21	0.1040	0.0950	0.098	3653.2200	5532.5840	5462.2470	5492.6120
Feb-21	0.0990	0.0980	0.098	3612.3780	5431.9740	5408.2470	5429.1420
Mar-21	0.0950	0.0940	0.095	3708.7080	5702.9100	5671.2910	5699.7270
Apr-21	0.0950	0.0940	0.094	3761.0050	5826.8700	5799.3170	5822.3470
May-21	0.0940	0.0940	0.094	3852.6120	5979.8480	5933.9720	5979.8480
Jun-21	0.0980	0.0970	0.097	4063.4030	6494.9900	6465.0930	6466.0740
Jul-21	0.0980	0.0980	0.098	4030.4000	6470.8960	6445.9090	6445.9090
Aug-21	0.0970	0.0970	0.097	3966.7450	6323.3070	6315.1390	6321.7770
Sep-21	0.0960	0.0950	0.095	3942.5010	6242.5840	6204.3660	6235.6740
Oct-21	0.0950	0.0950	0.095	4075.0020	6427.2510	6399.5470	6402.5650
Nov-21	0.0970	0.0940	0.095	4000.3470	6545.9960	6371.8880	6371.8880
Dec-21	0.0970	0.0970	0.097	4129.5420	6618.5000	6577.9230	6577.9230

Source: Muscat Stock Exchange

Communication with Shareholders and Investors

The Management Discussion and Analysis Report forms part of the annual report besides detailed disclosures in accordance with regulatory requirements and international standards. The Bank publishes its interim financial statements on quarterly basis and hosts these and other relevant information at its website (www.banknizwa.om) and Muscat Stock Exchange (MSX) website (www.msx.gov.om). The quarterly results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders from the Bank. The Bank's official news releases are displayed on the Bank's website.

Compliance with Regulatory Requirements

During the calendar year of 2021, the Central Bank of Oman conducted on-site examination of the Bank. However, it did not find any major violations apart from those inherited including Excess to Real Estate Financing Ratio, not achieving SME Financing Ratio, and Incomplete DR Testing and no monetary penalties were levied on the bank.

Following is the detail of penalties imposed by CBO and CMA over three year's period:

Regulators	2019	2020	2021
Capital Market Authority	NIL	NIL	NIL
Central Bank of Oman	NIL	NIL	NIL

Dividend Policy

The Bank's dividends policy complies with the CBO and Capital Markets Authority guidelines. The Bank follows a conservative dividend policy and shall recommend the distribution of the dividends to the shareholders after due consideration of the regulatory guidelines, the future growth expectations, AGM approval and other factors.

During the year 2021, the bank paid a cash dividend of 1.25 Baisa per share to the shareholders, as approved in Annual General Meeting dated March 28, 2021.

Sharia Supervisory Board (SSB)

The current SSB of the bank include the following scholars:

1. Sheikh Dr. Mohammad bin Rashid Al Gharbi (Chairman)
2. Dr. Aznan Hasan (Deputy Chairman)
3. Sheikh Ibrahim bin Nasser Al Sawwafi (Member)
4. Sheikh Ali bin Suleiman Al Jahdami (Non-voting Member)

Sheikh Dr. Mohammad Al Gharbi and Sheikh Ibrahim Al Sawwafi were elected as board members by the Annual General Meeting on 28 March, 2019 for a period of 3 years and will retire in upcoming Annual General Meeting as per the regulations of Central Bank of Oman, after maximum service period. Dr. Aznan Hasan has been appointed as SSB member in December, 2020, ratified in the AGM in March 28, 2021 and Sheikh Ali bin Suleiman Al Jahdami was appointed in AGM of March 28, 2021.

The main roles and responsibilities of the SSB

- The SSB shall be the ultimate responsible authority within the Bank for all Sharia related matters. The Board of Directors, which bears the responsibility of overall governance of the institution, shall rely on the SSB for all matters relating to Sharia in the normal course of business and operations of the Bank.
- The SSB shall use the various elements of Sharia Governance framework in order to fulfil its responsibilities i.e. Internal Sharia Reviewer, Sharia Compliance Unit and Sharia Audit Unit. The SSB shall receive reports from Sharia audit function periodically and use them in its assessment and decisions.
- Advise the Board and the management on Sharia matters in the day-to-day business of the Bank.
- Review and approve all the policies & procedures, products, processes, systems, contracts, and agreements for their Sharia compliance to be ratified by the Board. [66]
- Review and approve product documentation (including product features, terms & conditions, underlying Islamic contracts, product manual marketing, collateral other legal documentation etc.).
- Conduct Sharia checks post product approval to ensure implementation of the related guidelines as approved by the SSB.
- Review and approve the work carried out by Sharia compliance and Sharia audit function.
- Guide related parties on Sharia matters (e.g. legal counsel external auditor, etc)
- Provide written Sharia opinion/ ruling on matters brought to its attention by the management of the licensee through internal Sharia Reviewer or taken up by the SSB itself.
- Submit a report to the board of directors on the Bank's Sharia compliance to publish as part of the annual report.
- SSB define the key elements to be evaluated while reviewing and approving anew products. Such key elements shall be used as minimum guidelines/checklist by Internal Sharia Reviewer while reviewing all new products and services, before presenting the product/

service document to SSB. This checklist shall include, at minimum key features of the product, processes, structure, documentation (including legal contracts), risk and compliance considerations, marketing, collateral, and other such necessary details required to ensure proper business understanding. The SSB shall advise on the Sharia compliance of proposed product/ service backed by relevant Fiqh literature, evidence, and reasoning.

- SSB members allocate appropriate time and effort to understand fully the issues under consideration. They are not to comprise the rigour of the Sharia ruling process due to commercial or business pressures.
- SSB shall document its Sharia rulings (Fatwa) and guidelines, which shall be maintained centrally for ready reference, dissemination, and implementation within the Bank.
- SSB also publish as appendix to its annual Sharia compliance report all the Sharia Ruling (Fatwa) issued during a year along with their bases (religious evidence).

The main roles and responsibilities of the Sharia department:

- Sharia Compliance Department (SCD) is an element of the Sharia Governance vis-à-vis Corporate Governance structure as established in Bank Nizwa and approved by the Bank's Sharia Supervisory Board (SSB). An effective Sharia policy enhances the diligent supervision of the Board of Directors (BOD), the SSB and the Management of the Bank to ensure that the operations and business activities of the Bank remain consistent with Sharia principles and its requirements.
- To ensure Sharia compliance in all aspects of Islamic banking activities of the Bank, the Central Bank of Oman (CBO) has mandated several provisions in relation to the establishment of a SSB and an internal SCD in an Islamic Bank. The SSB is an independent Sharia Supervisory Body, which plays a vital role in providing Sharia views and rulings pertaining to Islamic finance and investment activities of the Bank. The SSB also acts as a monitoring body, which performs a supervisory role through the Sharia Compliance Department to maintain Sharia compliance in the operations and business activities of the Bank.
- At the institutional level, SCD acts as an intermediary between the SSB and the Management team of the Bank. The SCD together with the SSB has the role to provide Sharia resolutions and guidelines to the Management who shall ensure that all activities of the Bank are in compliance with the Sharia rules and principles, in accordance with the guidelines laid down by Islamic Banking Regulatory Framework issued by the CBO. The accountability to ensure Sharia compliance as well as the implementation of SSB Sharia rulings remain with the BOD and the Management of the Bank.
- SCD reports functionally directly to SSB and reports in parallel to CEO with respect to administrative issues. SSB through SCD provides copies of its Fatwa / Sharia decisions and resolutions to Board of Directors and CEO because management is responsible to assure that Sharia resolutions are executed in the transactions and all products and services of the bank. SSB reports its findings directly to the general assembly of shareholders at the end of each year.
- Sharia Compliance Department performs its functions based on the Sharia guidelines provided by CBO in the IBRF, and by Sharia rulings and resolutions issued by SSB, as well as the Sharia Standards issued by AAOIFI. To ensure Sharia compliance of transactions, SCD consistently conducts Sharia review before execution of transactions and Sharia audit after execution. Sharia review and audit encompasses each type of transaction across business lines, the relevant documentation and execution procedures. The overall Sharia Compliance activities are reported in the monthly report which is sent to CEO and the same report is provided to the SSB on its quarterly meeting.
- Sharia Audit unit executes continuous audit for transactions of all departments. Its observations and findings are reported by Sharia Audit report to SSB which is also conveyed and discussed with Management, with documentation of Management responses in addition to recommending action plan for each observation.
- To ensure Sharia compliance in execution, all transactions are executed according to Standard Operating Procedures prepared by the Operations Department and approved by the concerned department heads including Sharia. Sharia audit uses check lists as per SSB Sharia guidelines to meet Sharia requirement and ensure that the SOPs are adhered to during execution.

Schedule of attendance for Sharia Supervisory Board members for the year 2021:

Name of Director	Position	26-Jan-2021	11-Apr-2021	2-May-2021	19-Aug-2021	27-Dec-2021
Sheikh Mohammad Al-Gharbi	Chairman	✓	✓	✓	✓	✓
Dr. Aznan Hasan	Deputy Chairman	✓	✓	✓	✓	✓
Sheikh Ibrahim Al Sawwafi	Member	✓	✓	✓	✓	✓
Sheikh Ali Al Jahdami	Non-voting Member				✓	✓

Details of attendance in Sharia executive committee meeting held during the year 2021:

Sharia Executive Committee	
Name of Members	**No. of Meetings Attended**
Sheikh Dr. Mohammad Al-Gharbi	6
Sheikh Ibrahim Al Sawafi	6
Sheikh Ali Al Jahdami	4
Total Number of Meeting Held During the year:	**6**

Sharia Supervisory Board has received an amount of RO 63,033 as sitting fees for the year ended December 31, 2021, which included the SSB sub-Committee.

Details of payments done for Sharia Supervisory Board and Sharia Executive Committee during the year 2021 are as following:

No	Member	Total
1	Sheikh Dr. Mohammad Al-Gharbi	RO 20,900
2	Sheikh Ibrahim Al Sawafi	RO 20,900
3	Dr. Aznan Hasan	RO 18,633
4	Sheikh Ali Al Jahdami	RO 2,600
		RO 63,033

Details of financing and deposits of Sharia Supervisory Board during the year 2021 are as following:

Name of Members	Total Finance	Total Deposit
Sheikh Dr. Mohamad Al-Gharbi	RO 164,102	RO 60,212
Sheikh Ibrahim Al Sawafi	RO 69,567	RO 2,133

Sharia Supervisory Board Members Profiles:

Sheikh Dr. Mohammed bin Rashed Al-Gharbi (Chairman)
Sheikh Mohammad bin Rashid Al-Gharbi has been a member of the Sharia Supervisory Board at Bank Nizwa since July 2012 and has been now entrusted as the Chairman of the SSB Board of the Bank.

Sheikh Al-Gharbi is currently Assistant Professor in the Department of Islamic Sciences at Sultan Qaboos University. He is a published academic with an extensive research portfolio, based upon his contribution and attendance of seminars and conference proceedings across many countries. In addition to his written volumes, Sheikh Al-Gharbi has delivered his research into Sharia throughout numerous academic papers on financial transactions within Islamic jurisprudence.

Sheikh Al-Gharbi holds several degrees, including a Bachelor's from the Sharia Justice Institute in Oman, a Master's degree from Jordan University and a PhD within the field of Islamic Sciences from Zaytouna University in Tunisia.

Sheikh Dr Aznan bin Hasan (Deputy Chairman):
Dr. Aznan has joined the Sharia Supervisory Board of Bank Nizwa in December 2020. Currently he is a Deputy Chairman of Bank Nizwa's SSB. He is an Associate Professor in Sharia at Institute of Islamic Banking and Finance (IIiBF), IIUM. He is currently the President, Association of Sharia Advisors in Islamic Finance (ASAS) He is also the Deputy Chairman, Sharia Advisory Council, Securities Commission and Deputy Chairman, Sharia Advisory Committee, Employee Provident Fund (EPF). He is also a member, Sharia Advisory Council, AAOIFI, Bahrain and Higher Sharia Authority, Central Bank of UAE. He also serves as a member of Board of Directors, Maybank Islamic Berhad.

Dr Aznan Hasan received his first Degree in Sharia from University of al-Azhar (1994). He then successfully completed his master's degree in Sharia from Cairo University with distinction (mumtaz) (1998) and his thesis was recommended for publication. He then obtained his Ph.D from University of Wales, Lampeter, United Kingdom (2003). Dr Aznan has conducted and published more than 50 research and presented more than 100 presentations.

Sheikh Dr. Ibrahim bin Nasser Al-Sawwafi (Member):
Sheikh Ibrahim Bin Nasser Al-Sawafi joined Bank Nizwa as a member of the Sharia Supervisory Board in July 2012. In his capacity, Sheikh Al-Sawafi also serves as the Fatwa Trustee for the Mufti of Oman and a Member of the Committee for Endowments and Zakat at the Ministry of Endowment and Religious Affairs.

As an eminent scholar, he contributes to various radio and television programs presenting Islamic issues and pens for several newspaper columns and articles. He has written more than twenty books and organized training sessions on various Islamic topics while regularly attending conferences on areas such as Islamic Finance, Takaful, Sukuk, Corporate Governance, Islamic Jurisprudence to name a few.

Sheikh Al-Sawafi holds a degree of high judicial license from the Sharia Justice Institute, graduating with distinction, and is a prominent professional Sharia Auditor, certified by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) .He also holds a PhD from Jinan University in Lebanon.

Sheikh Ali bin Suliman Al Jahdami (Member):
He obtained a Bachelor's in Fiqh and Da'wah from the College of Sharia Sciences in the Sultanate of Oman, then a Master's degree in Economics and Islamic Banking from Yarmouk

University in Jordan. He is currently a PhD researcher in the Department of Jurisprudence and its Fundamentals at the College of Revelation Knowledge and Human Sciences at the International Islamic University in Malaysia. He obtained some courses and experiences in the field of Islamic banking, such as a certificate of Islamic banking accredited by the Arab Academy for Banking and Financial Sciences in Jordan and a certificate of professional Sharia audit in Islamic banks and financial institutions.

He has worked as a fatwa researcher in the Fatwa Department of the Office of the General Mufti of the Sultanate since 2007, and a visiting lecturer at the College of Sharia Sciences in the diploma, bachelor's and master's stages for a number of subjects such as: Jurisprudence of Financial Transactions, Jurisprudence of Enjoining Good and Forbidding Evil, Introduction to Islamic Economics, Hadiths of Rulings, and Family Fiqh Compared to the Personal Status Law, he participated as a member of the Drafting and Description Committee in a seminar on the development of jurisprudence organized by the Ministry of Endowments and Religious Affairs in a number of its sessions, and a member of the Committee for Reviewing and Approval of Books and Publications of the Research and Studies Department of the Ministry of Endowments and Religious Affairs.

Profile of Management Team:

Mr. Khalid Jamal Al Kayed, Chief Executive Officer
Khalid Al Kayed, Chief Executive Officer of Bank Nizwa, is responsible for overall leadership and effective management of the Bank, setting direction and driving total performance consistent with the interests of shareholders, employees, and other stakeholders. He oversees all aspects of the bank's business segments in line with Islamic finance principles including its progressive Sharia-compliant portfolio of products and services.

Under his tenure, Al Kayed steered the bank to a new era, positioning Bank Nizwa as a strong, innovative, and relationship-oriented sharia compliant financial institution with the largest market share as a full-fledged Islamic bank. He leads the management team to further build the Bank Nizwa brand and its corporate and retail customers' portfolio across various industries. He is also leading the bank's ongoing and new initiatives and programs to raise awareness on the benefits of Islamic finance to the wider public across Oman. Because of his services and contribution towards the growth and development of the industry, he was recognized as 'Islamic Banker of Year' at the 7th Global Islamic Finance Awards 2018.

A financial industry veteran with over 28 years under his belt, Al Kayed is associated with Bank Nizwa since its inception. Prior to joining the bank, Al Kayed held various posts in a host of well-respected financial institutions including Deputy Chief Executive Officer & Chief Financial Officer at Jordan Dubai Islamic Bank and Chief Financial Officer at Standard Chartered Bank Jordan. His expertise ranges from banking management, financial control, accounting, risk management, and asset liability among other fields.

Al Kayed holds Masters in International Accounting and Finance from Liverpool University. He is also an alumnus of Columbia Business School from where he has completed executive management program. In addition to this, he is a Certified Management Accountant and Certified Financial Manager from Institute of Management Accountants.

Mr. R. Narasimhan, GM Wholesale Banking – Mr. Narasimhan is currently serving as General Manager Wholesale Banking at Bank Nizwa. His experience spans over four decades in banking and financial services industry, including but not limited to Corporate, Retail, Treasury & Investments, SME Business and Project Financing exposure, with geographical diversity in Asian region. He has held senior positions at many banks previously, including Bank Sohar. The bank has experienced a sizeable growth in Asset base, as well as human resource development under his leadership. Mr. Narasimhan has Masters in Science and PG Diploma in Banking. He participates in local and international seminars as speaker and panelist on invitation. He has also authored on a few occasions chapters on Islamic banking in CBFS publications.

Mr. Nasser Said Al Lamki, GM Internal Audit - has over 25 years of banking experience. Prior to joining Bank Nizwa, he worked in reputed local and international banks in Oman and Saudi Arabia. During his career, he led pragmatic and advanced audit function, while developing and maintaining strong working relationships at both strategic and operational levels, promoting strong risk management and raising the profile of audit. Mr. Lamki was Vice President of Audit in one of the leading Islamic Bank in Saudi Arabia. He holds an MBA in Leadership and Sustainability from University of Cumbria, UK.

Mr. Mujahid Said Al Zadjaly, GM IT and Operations – Mr. Mujahid is a strategic, decisive and result oriented leader with over 20 years of professional expertise with an in-depth knowledge in Digital Transformation & Innovation. He is leading the Digital Transformation & Innovation project as a part of bank's long term strategic initiative to deliver Bank Nizwa's vision to become the "Digital Bank of Choice" for people of Oman.

Mujahid Al Zadjaly graduated in the National CEO Program Cohort 2- 2016 developed under the patronage of the Diwan of Royal Court and delivered by International Institute of

Management Development (IMD). He holds Masters in Business Administration from Luton University, UK. Other credentials include General Management Program from Harvard Business School, USA and Diploma in Leadership and Management from Institute of Leadership and Management, UK.

Mr. Mohamed Fida Hussain, GM-Chief Risk Officer – He has as MS in Engineering from the USA and an MBA from Sultan Qaboos University. Has over all 27 years of experience in the banking industry and 14 years in risk management across areas of Risk Management Framework, including the Risk Mitigation strategies for the organization's critical risks, development & communicate Risk Management Policies, Risk Appetite & Limits, and Enterprise-wide Risk Management (ERM). He worked as member of various committees, participated in various task forces concerning banking and development issues. He has also served as part time lecturer at College of Banking and Financial Studies (CBFS).

Mr. Arif Al Zaabi, AGM Retail Banking – has over two decades of experience in the banking industry. His experience covers the entire spectrum of Commercial and Retail Banking and in his current role, Mr. Arif is spearheading and catalyzing the Bank's growth in Retail Business. He controls retail-banking activities and resources in order to meet retail banking strategic goals. Under the supervision of the Board of Directors and the CEO, he is responsible for the day-to-day management of the Retail Bank; developing business strategies and plans ensuring their alignment with short-term and long-term objectives of the Bank.

He has an in depth knowledge about retail banking, his extensive expertise and experience in the management of Branch Banking, Retail Banking enables him to work cross-functionally with various businesses / support functions in the Bank, to build and deliver a comprehensive suite of products/solutions to our customers in retail segments. Mr. Arif previously held senior positions across different banks. He holds a Master's degree in Business Management from Majan College.

Mr. Salim Rashid Ali Al Maharbi, AGM - Chief Financial Officer – He has 24 years of diversified banking experience ranging from domestic and international banks. He is a Certified Islamic Professional Accountant, Certified Accounting Technician from ACCA UK, holds B.A. He has obtained a leadership certificate in Islamic Finance from a specialized institute from UK with distinction. He possesses expertise in all the applicable financial standards of AAOIFI, IAS, IFRS and local legislations. Prior to joining Bank Nizwa, he was Chief Manager, Commercial and Finance at Bank Sohar. He has varied experience in the field of Financial Reporting, Financial Accounting, Management Accounting, Internal Controls, Business Planning and Performance Management.

Ms. Haifa Abdul Ali Al Lawatia, AGM, Chief Human Resource – With 25 years of total professional experience, she has previously worked in reputed organizations like PDO and Oxy Oman. She has an MBA, BSc, and other professional accounting certifications and has cross posting experience in Houston USA. Haifa has held several important positions including Secretary to the Board of Directors at HRC, and member of the Human Resources Committee at Oman Banks Association. She joined Bank Nizwa at foundation stage and helped in building HR department from scratch. Her core competencies include Human Resources, Compensations & Benefits, Staffing, and Strategic HR. She has over 17 years of experience in Human resource management and is currently responsible to support and align HR objectives with bank's overall vision, implement HR change initiatives to support the business strategy and continuous improvements in HR management to achieve organizational objectives.

Mr. Tariq Mohammed Osman, Head of Legal Department and Board Secretary – He is a veteran in the field of legal and has 39 years of experience working with reputed financial institutions of the region. His major experience is with Dubai Islamic bank – UAE where he served as a legal advisor and lawyer for 12 years of his successful career. He has also served a reputed securities and investment banking company where he served 14 years as a legal advisor and Board secretary. He holds a Master's degree on commercial law.

H.H. Sayyida Wisam Jaifer Al Said, Head of Marketing & Communications – With 14 years of experience as a marketing and communications professional. Sayyida Wisam previously headed the corporate affairs department at Oman Oil Marketing Company before joining Bank Nizwa. She has a Bachelor's degree in Corporate Communications from the American University of Paris with a Master's degree in Strategic Marketing from Cardiff University, UK. Sayyida Wisam also holds a specialized certificate in Direct Marketing. Outside her career in Oman, Sayyida Wisam also trained with UNESCO's Public Bureau of Information and the International Chamber of Commerce based in Paris, France.

Dr. Mansour Al Qudah, Head of Sharia – Has over 21 years of experience in the Islamic Banking and Sharia audit. He worked in Jordan Islamic Bank as a Sharia board secretary and Sharia audit manager and in the Saudi-based Al Inma Bank as the Assistant General Manager of Sharia Group as well as section manager of Sharia policies and procedures auditing. Dr. Mansour has a PhD in Islamic Banking and Economics from the University of Yarmouk in Jordan. In addition, he has Professional Diploma in Accounting and Auditing from Arab Academy for Banking and Financial Sciences, Jordan. He is also Certified Islamic Banker (CIB), Certified Islamic Specialist Sharia Auditing (CISSA), Certified Entrepreneurship Consultant, Certified Internal Quality

Evaluator and Auditor and Certified Expert in Contract Management and Contractual, Relationships.

Mr. Mohammed Al Hashmi, Head of Compliance – is currently leading Regulatory Compliance, Corporate Governance and Anti-Money Laundering & Counter terrorism Financing and Fraud Risk Management functions. Mohammed's professional career spans over 12 years, including six (6) years of handful experience as an External Bank Examiner at Central Bank of Oman.

Mohammed holds a Bachelor's degree in Accounting from Sultan Qaboos University. Mr. Mohammed is certified in Governance, Risk and Compliance by International Compliance Association, UK. Moreover, he has obtained specialized international trainings and certifications, including certifications from Federal Deposit Insurance Corporation (FDIC) from the United States on Banks Examination and Financial Analysis and certification in Islamic Banking by Islamic Financial Services Board (IFSB). His portfolio of trainings also includes certification with distinction in Cambridge Leadership Program from University of Cambridge, UK. He is currently perusing MSc in Financial Management from Alliance Manchester Business School, University of Manchester.

Related Party Transaction

Details of related party transaction have been disclosed in the financial statements without any special rate or treatment for the SSB members.

Internal Control Review

The board gives great importance to maintaining a strong control environment and board review has covered all controls including financial, operational, compliance and risk management.

The board has established a management structure that clearly defines roles and responsibility and reporting lines and has approved the policies.

Financial information is prepared using appropriate accounting policies that are consistently applied. Operational procedures and controls have been established to facilitate complete accurate and timely processing to transactions and the safeguarding of assets through policies and procedures manuals, desk performance instructions and other circulars.

Auditors' Profile – KPMG

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, amongst 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 have 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.

KPMG billed an amount of RO 52,750/- towards professional services rendered to the Company for the year 2021

Details	Amount
Financial Audit Fees for 2021	RO 51,500
Tax fees	RO 1,250
TOTAL	**RO 52,750**

Declarations

During the period, the board has conducted a review of the effectiveness of the Bank's internal control, policies and procedures; and is satisfied that the Bank's internal control are effective and that appropriate procedures are in place to implement the regulatory and internal requirements.

Further, the Board of Directors confirms that there is no issue on going concern and that the Bank is able to continue its operations during the next financial year.

Management Discussion & Analysis Report

For the financial period ended 31 December 2021

Mr. Khalid Jamal Al Kayed
Chief Executive Officer

The Management Discussion and Analysis Report is a detailed overview of Bank Nizwa's business for the financial year covering the period from 1 January 2021 to 31 December 2021.

It focuses on the core segments of the business and discusses prospects and opportunities for years ahead in the context of the prevailing macroeconomic environment and market penetration of Sharia-compliant products and services.

Poised For Growth

In less than nine years, Oman has become the world's 13th largest Islamic banking industry, commanding a 15 per cent share in the Sultanate's total banking assets. Bank Nizwa is at the forefront of this remarkable growth of Islamic banking and continues its success journey by achieving impressive financial results. Bank Nizwa recorded the highest net profits since inception, with a growth of 13% despite COVID-19 related challenges.

Ever since its inception, the bank has been committed to providing Sharia-compliant innovative financial solutions, to offer customers a unique banking experience in line with their evolving needs. Despite the volatility caused by the pandemic and the challenging operating environment, the Bank demonstrated utmost resilience in all its operations and exhibited exceptional performance across all its departments. Bank Nizwa's total assets also grew by 16% to reach RO 1.4 billion compared to RO 1.2 billion in the preceding year. Its growing preference amongst customers is reflected in its increasing customer deposit portfolio, which increased by 20 per cent to RO 1.1 billion against RO 924 million on a year-on-year basis. The bank's financing to customers rose by 13 per cent to RO 1.1 billion compared to RO 1 billion million in 2020.

A key contributor to this extraordinary performance amidst tough market conditions is the execution of our medium-term objectives and vision of the future, and increased awareness on the benefits of Islamic banking amongst individuals and businesses alike; a responsibility Bank Nizwa has taken upon itself to continue to lead.

As the largest and fastest-growing full-fledged Islamic bank in the Sultanate, we are uniquely placed to play a strong role in supporting Oman's economic recovery and transition. This begins by providing the right support to our customers and community when they need us most. We are leading the sector's growth through all the segments i.e. Consumer Banking, Corporate and Wholesale Banking, International Banking, trade finance and treasury, among others. This was achieved through customer focus, digital engagement and operational excellence. Continued balance sheet strength is critical to our ability to serve our customers, drive core business outcomes and deliver strong and sustainable returns for our shareholders. During the year, our capital position was improved significantly through the issuance of common equity capital, which will enable the Bank to increase its market share to achieve the second phase of growth targets.

Bank Nizwa has played a significant role in supporting the government's diversification plan as well as Oman's 2040 vision. We want to play a bigger role in Islamic banking, leveraging our expertise in sharia-compliant banking, our customer base, our products and services, and our existing technology platforms to create differentiated propositions for our customers.

During the year, the Bank identified key opportunities, critical areas of improvement and subsequent tactical plans that helped retain its leadership position. These conscious and consistent efforts by the bank rightfully manifest its most trusted position within Oman's Islamic banking sector.

We took targeted actions to drive long-term profitability with a disciplined approach to expense management and capital allocation and made meaningful credit decisions to position Bank Nizwa for future growth. We are proud of our achievements in significantly improving our efficiency ratio, our return on equity and our positive operating leverage over the past three years. With continued outperformance in risk management and a CET1 ratio of 17.85%, we are poised for growth and increasing shareholder returns.

Country Economic & Business Environment

The COVID-19 virus is a fading risk to global recovery. With health impacts largely contained, any future waves of the virus should have minor impacts on the global economic outlook, as governments seem unlikely to reintroduce wide-ranging mobility restrictions in the event additional COVID-19 waves materialize. In addition, most economies are experiencing solid economic recoveries, with healthy household and corporate balance sheets, and strong employment growth. This should provide an additional layer of protection against the potential consequences of new surges in the virus.

The global economy is expected to grow by 3.3% as per the IMF. Oman's GDP is forecast to grow by an average of 3% over the medium term. A robust global economic recovery is underway. Although this strength is causing some supply chain disruption, it is also creating oil demand as witnessed by oil-exporting countries since mid-2021 and continuing. This upward trend of oil price will support all oil-producing countries including Oman.

Higher oil prices and continued implementation of structural reforms, including the introduction of VAT in 2021 will help to reduce the budget deficit sharply. The Government is already working on a Medium-Term Fiscal Balance Program to control expenditures, lower debt and reduce the dependency of revenue on hydrocarbon revenues. The government aims to achieve a balanced budget by 2025 by reducing subsidies on utilities, rationalising capital spending and introducing new revenue collection in line with the approved plan.

The 2022 budget was prepared according to the the objectives of the Tenth-Five Year Development Plan (2021-2025). This represents the first plan of Oman Vision 2040, which aims to achieve financial sustainability while stimulating economic sector diversification. The 2022 budget reflects all government measures, endorsed by His Majesty Sultan Haitham bin Tarik, that are aimed at increasing non-oil revenues and reducing public spending on government units to achieve fiscal sustainability. The 2022 budget seeks to attract more investment, enable the private sector to play a greater role in accelerating economic growth, and create more job opportunities.

Because of the planned reforms and improved fiscal dynamics, rating agencies, S&P, Moodys and Fitch upgraded their outlook in 2021 for the country. The change in outlook reflects the significant easing of government liquidity and external financing pressures, mainly because of the ongoing implementation of the Medium Term Fiscal Plan (MTFP) and significantly higher oil prices since the middle of 2020. This will further underpin a steady decline in direct government debt burden to around 60% of GDP by 2024.

The Sultanate of Oman has maintained steady progress towards achieving its long-term strategy of economic diversification. The outlook for the future remains stable as the country continues to build its reputation as an attractive business and investment destination for a wide array of industries supported by a solid infrastructure and investor-friendly policies and procedures.

While the energy sector has been the main driver behind Oman's economic growth, other industries are playing a greater role in leading the way towards a diversified economy. The balance between oil and non-oil industries is becoming more sustainable. Overall, the business environment is pointing towards growth and opportunities for the private sector.

Outlook for The Banking Sector

The banking sector in Oman has been resilient to pandemic related economic challenges. The sector has remained relatively strong with adequate capital and a low level of non-performing assets. The credit growth was supported by the economic growth in 2021, while the credit risk is well contained.

The Central Bank of Oman is enabling the adoption of new modes of service delivery and technologies to serve the market more effectively, especially during pandemic related challenging times. The CBO also initiated several policy measures to strengthen the banks to support the country's economic recovery.

Banks will continue to be the prime financiers for both the corporate and household sectors. Within the banking sector, domestic banks will remain the leading players. The major source of funding will be domestic deposits.

With the reopening of the economy, the banking sector continued its trajectory of growth. Total assets of the banking sector crossed RO 38.9 billion by the end of December 2021 thus registering a growth of 7 per cent from the previous year's same period. Total deposits held with banks increased by 5.2 per cent to reach RO 25.6 billion. The total outstanding credit extended by banks grew by 4.4 per cent to RO 27.8 billion at the end of December 2021, while credit to the private sector showed relatively moderate growth of 2 per cent to reach RO 23.4 billion.

The banking sector remained strong supporting the economic recovery and diversification initiatives and credit needs. The stability of the banking system stayed intact as the banking sector remained well capitalized, profitable, and liquid with a low infection ratio. Overall, the banking sector's non-performing assets ratio suggests satisfactory asset quality and well-contained credit exposure. Improving economic growth in 2022 will create credit demand, thereby expecting the credit growth to go up in 2022.

Nature of Business of Bank Nizwa

Bank Nizwa is a Sharia-based financial institution in the business of both intermediation and participation that would lead to the economic, social and ethical wellbeing of the society. The Bank's overall service proposition is divided into Personal Banking, Corporate & Commercial Banking and Financial Markets & Investments with customers being served through multiple channels, including branches, direct sales, call centre, ATM/CCDMs, mobile application, and internet banking.

Constituting the largest segment of the business, Retail Banking Division, serves the financial needs of individuals across the country, providing them with the necessary means to lead financially secure lifestyles through innovative Sharia compliant products including savings and current and investment deposits accounts as well as home, personal and auto finance solutions.

The Wholesale Banking Division serves the needs of the government sector, government-owned entities, corporate and commercial clients, as well as small-and-medium-enterprises (SMEs) through innovative structured working capital, long-term financing and trade finance facilities.

Key Developments in Core Segments

Retail Banking

The Retail Banking Division has worked towards continuously redefining the Islamic banking experience in Oman by providing customers with innovative products and services underpinned by responsive customer care and technologically advanced solutions to meet today's dynamic requirements. This approach has brought about positive change in Oman's retail banking space, prompting other institutions to re-examine their product and service offerings.

2021 (along with 2020) have been unprecedented years, and individuals/retail customers were most impacted. Due to the pandemic and related restrictions on movements, closure of markets, reduction of salaries and various other factors, the retail banking sector was negatively impacted. Despite these challenges, the retail banking division consolidated its customer base. The focus was to strengthen and improve Bank Nizwa's market share while carefully balancing credit risk and exposure. Apart from the pandemic, our customers were also badly impacted due to cyclones during the year.

During 2021, we continued to stand by our customers during difficult times by offering financial and non-financial relief. Bank Nizwa also worked closely with the customers who retired during this year and took appropriate steps to restructure their financing and safeguarding the interest of all stakeholders. The Bank offered various instalment deferral for Ijara/Diminishing Musharaka/Murabaha Finances to customers affected directly by the pandemic, Cyclone, retirement, salary reduction or loss of job.

To support the economic recovery, Bank Nizwa signed a number of agreements with reputed developers, dealerships and retailers to provide customers with value-added services and discounts. In order to strengthen the relationship with Wealth Management customers, Bank Nizwa launched a range of exclusive products, benefits, and discounted rates tailor-made to suit their unique needs.

Retail banking continued to upgrade its digital channels to improve financial inclusion and accelerate the move towards a digital economy. Various new services were introduced across all electronic platforms – like IVR/phone banking, mobile app, internet banking, ATM/CDM machines, SMS, and Email – to enhance customer convenience.

Retail banking conducted regular knowledge sessions to increase awareness and clarity about Islamic banking and Sharia compliant financial services and products, with the aim of enabling attendees to make informed financial decisions.

During 2021, Bank Nizwa further consolidated its position as the leading Islamic bank in Oman by increasing its customer base, which helped increase market share in deposits and assets. Drawing insights from branches at strategic locations across Oman, Bank Nizwa continued to analyse and anticipate customers' needs and set new benchmarks in customer service.

Bank Nizwa aims to continue to innovate its suite of products and services to offer a rewarding and enriching experience and expand its network to grow its customer base in the coming years.

Wholesale Banking Group

Wholesale Banking recorded remarkable growth during the year, despite a multitude of challenges that were made more pronounced due to the COVID-19 pandemic, and is now poised to address 2022 growth ambitions and client requirements in all business segments and expanding public-private partnership (PPP). The growing, multi-industry portfolio is a testament of the trust clients place in Bank Nizwa's Sharia-compliant products and services.

In line with Bank Nizwa's growth strategy and contribution to the Sultanate's economic diversification goals, the Wholesale Banking Group concluded several unique financing structures including green financing, food security projects, Public Private Partnership model, infrastructure related project, tourism projects, projects of the aviation industry and core manufacturing industries like Steel, Cement, Plastics, Chemicals, Oil and Gas amongst other key sectors.

The focus going forward, will be harnessing the strength and resources from all stakeholders, internally and externally, towards enhancing market share, client experience and service quality. The Wholesale Banking Group continues to redefine the business by enhancing capabilities and focusing on meeting diverse business needs towards the aspirations of Oman 2040 vision. The contribution of ten divisions within wholesale Banking Group is briefly summarized below:

1. Global Markets (Treasury)
Given the challenging market dynamics, liquidity management once again was at the fore. In this respect, Global Markets successfully navigated all funding requirements at both the Bank and regulatory levels. Collaborating with related divisions, proactive steps were executed to further enhance diversification of the liability structure. These measures resulted in a more dynamic funding profile with additional cost savings to the Bank. Global Markets also played a vital role in supplementing income through its Foreign Exchange, money market and Sukuk Portfolio management.

Treasury department with its new strategy in engaging clients across the bank has started its weekly market update newsletter, which was well received and resulted in significant growth in its Foreign Exchange income year-on-year and is expected to be further enhanced in parallel with the Bank's expansion. The Sukuk Portfolio continued to record comprehensive growth despite market volatility and continues to be a stable revenue contributor for the Bank. Global Markets will continue to strive to expand its offerings backed by the team's market knowledge, expertise and experience in a variety of Islamic banking markets.

2. International Banking
The International Banking unit continues to build and maintain relationships with partner financial institutions, domestically and globally. This effort is fundamental to provide our clients with the requisite network for payments and trade business as well as state-of-the-art products by top regional and global banks. Supplemental funding sources were also achieved through financial institution partnerships.

The team ensured smooth correspondent relations and business flows the unit monitors worldwide country exposures and risk. During 2021, Bank Nizwa continued to add new financial institution partners and connections from different regions. New lines for handling local and international payments, placements and trade finance business continued to be set up and enhanced. The International Banking unit will continue to increase participation to ensure the efficiency of the Bank's transaction processes, internally and externally.

3. Government & Investment Banking
The Government & Investment Banking unit is essential in driving the wholesale deposit base that supports asset growth, apart from investments and advisory mandates. Increasing costs was a mounting challenge to the industry, and efforts by the Government unit had ensured the requisite sustenance while adding new clientele. With the increased budget rationalization in the public sector, a proactive relationship management approach had ensured uninterrupted business.

The Investment Banking unit continued to make efforts in developing the Islamic capital market sector. Significant contribution was made in successful issuance of Bank's own right share of RO 70 million. The Government & Investment Banking unit will continue to broaden the base for the Bank to deliver core-funding sources as well as supplement other income streams, including advisory services, with a differentiated approach.

4. Project Finance

The Project Finance unit continues to deliver coverage and financing needs to national priority economic sectors. Increased attention to private sector involvement in strategic national projects with the establishment of supportive new regulations including the Public-Private Partnership Law, Bankruptcy Law and Foreign Capital Investment Law, and the setup of the Government's dedicated Public-Private Partnership unit have resulted in the rising need of project financing.

PPP projects in the pipeline are expected to be key catalysts to growth. The Project Finance unit stands ready to meet the emerging need by continuing with successful execution and completion as well as delivering Sharia compliant project-related services to developing projects and contracts. During the year, the unit had done well in closing a number of milestone transactions of national importance. The team is actively working to carve out a niche, as an active player in the Project Finance & Syndication market in Oman. This area of business, particularly infrastructure and utilities sector, is crucial not only to the Bank but to the wider economy, where the Bank offers 100% Sharia-compliant solutions.

5. Corporate Banking

Corporate Banking remains one of the key growth drivers in the Wholesale Banking business, registering a record growth once again during 2021. Emphasis on asset quality through a diversified portfolio approach has resulted in achieving the main goals. The bank ensured its support of clients affected by the pandemic in order to ensure their business continuity and recovery. With a balanced approach, and focus on COVID-19 affected clients and industries, the Bank continued to support businesses – and in turn the general economy – during the difficult period of the pandemic.

As in previous years, multi-location, multi-industry and multi-product approach has resulted in addition of new customers to our bank which sizeable business volume. During the year, special attention was given to finance infrastructure projects, financing in basic necessity industries. Supported companies involved in uplifting the natural calamity affected areas with innovative Sharia compliant solutions that delivered strong business value.

6. Mid-Corporate Banking

In 2021, a midcorporate unit was established to provide broader coverage focused account management as well as business development. The scope of the unit is intended to bridge the segment between SMEs and large corporates. Companies within this segment present significant growth opportunities, along with the prospect of becoming their primary banker. The unit made commendable inroads in the market, on boarding key clients operating in national priority sectors. Mid-Corporate Banking is expected to grow rapidly and provide continuity to clients' enterprise lifecycle.

7. Transaction Banking

Transaction Banking and Trade Finance business continued its journey of growth by providing new products, revamped services and delivery standards to meet the consistently rising demand for cash management, trade finance, salaries, payment services as well as international trade. Impressive growth of non-funded income also demonstrated the improved trade volumes and service standards. Corporate Internet Banking recorded a 300% increase in corporate online transactions, supported by enhanced features and services. The commendable performance was enabled by the continuous relationship and marketing efforts of the WBG business team which enhanced clients' confidence in the Bank's capabilities.

Our commitment to implement the best-in-class digital platforms and services including Transaction Banking and Trade Finance systems have been approved and achieved significant progress during the year. The sustained business growth achieved by the bank also recorded substantial increase in both the fee and non-funded income. Transaction Banking and Trade Finance will continue the efforts to improve the business volume and value by facilitating higher benchmarks in product range, service quality and customer experience.

8. SME Banking

Bank Nizwa acknowledges the vital role the small and medium enterprise (SME) sector plays in contributing to the economy and its impact in providing national employment, and supports the sector keenly with solutions tailor-made for SMEs in the Sultanate.

The trust placed in Bank Nizwa's Sharia compliant products and services is evident in the notable increase of the SME customer-base and business volume. The SME business continues to expand coverage in key cities outside Muscat. With a special focus on industrial areas such as Madayn, Oil Services Sectors and more tie-ups and associations with major corporations and oil majors are on the cards.
Affiliations with vendors in the supply chain of larger corporate enterprises, particularly SMEs, will remain a mainstay

Despite numerous challenges in 2021 including the pandemic, the SME Banking unit added new business and products to register satisfactory growth. Bank Nizwa will continue to support the growth of SMEs with Sharia compliant products and services utilizing various channels.

Aligning itself to the country's economic diversification plan as outlined in its vision 2040 and in an endeavour to bridge the funding gap for SMEs operating in key sectors, the bank is constantly engaging with and signing numerous financing agreements with potential SME clients.

9. Product Development

Islamic Banking Product Development unit in Wholesale Banking is involved in designing, developing new products and services, process re-evaluation, documentation streamlining, and customizing solutions to create an impactful suite of products and services that deliver on-point services to clients. We believe in adding value to our customers' lives and businesses, through dynamic and competitive products and services that fulfil their needs while conforming completely to the dictates of Shariah. At the same time, we endeavour to deliver competitive risk adjusted returns to our stakeholders.

Product Development is involved in developing innovative, viable, and competitive value propositions that not only meet the requirements of today's complex financial world, but also do so with world-class service excellence, which our customers demand. Bank Nizwa leads the Islamic Banking industry in the sultanate with a critical responsibility of leading the way forward in establishing a stable and dynamic Islamic Banking system replete with dynamic and cutting-edge products and services.

9. Wholesale Banking Support

A key anchor for all Wholesale Banking units, the Wholesale Banking Support team was instrumental in the overall commendable performance and growth of the Wholesale Banking business. The team fortifies the efficiency of the Wholesale Banking Group covering multitude of client services.

The unit aims to deliver high client satisfaction levels through continuous improvement in its operations. In addition, the unit collaborates with all departments to resolve bottleneck issues in the timely delivery of services to clients. The unit will continue to provide all necessary support to new initiatives.

Risk Management

Risk Management is an integral part of our operations and is the responsibility of all units within the bank. The Risk Management function is overseen and managed on a bank-wide basis. The Bank's approach to risk management involves understanding drivers of risks, risk types, and impacts of risks. Drivers of risk include but are not limited to, the economic environment, regulations, competitor or market evolution, business decisions, process or judgment error, dysfunctional markets, and natural disasters.

In 2021, Bank Nizwa has followed closely the guidance of the Central Bank of Oman (CBO) to help customers who were impacted by the pandemic and the tropical storm Shaheen, through timely restructuring of their exposures. The bank supported individuals by providing deferment to their financing. We continuously strive to be supportive to our customers in times of need while maintaining adequate provisions to protect the interest of our shareholders. This approach enabled our customers to recover and maintained commercial activity. The Bank has also taken proactive steps to ensure the booking of well-diversified, high-quality assets that ensure the sustainability of profitability.

Risk Management has been instrumental in identifying emerging key risks and risk drivers, measuring and managing such risks against the backdrop of changing macro-economic conditions and assessing and influencing the Bank's forward-looking strategy.

The Bank is inherently exposed to various types of risks in carrying out its business activities. The Bank has a sound and strong Risk Governance built upon risk-based decision-making principles across all levels of the organization. The Bank has a disciplined approach in managing risk and reward to assure that it is well positioned to achieve its strategic objectives and to safeguard the interests of all stakeholders.

Our primary responsibility of managing risk lies with the Board of Directors (BOD) who have formed an independent Board-level committee: Board Governance, Risk and Compliance Committee (BGRCC). The BGRCC is further supported by an independent Risk Management Group (RMG) that reports to the BOD through BGRCC.

As part of Risk Governance, Senior Management Committees were established within the Bank to manage the overall level of each risk type. This includes the Assets and Liability Committee (ALCO), the Credit and Investment Committee (CIC) and the IT Steering Committee (ITSC). A well-defined governance structure is in place for manual and system-based activities and is approved by the BOD. Periodic audits and examinations by the internal auditors ensure that the culture of risk awareness is embedded throughout our business divisions, which is supported by a rigorous set of checks and balances.

As part of the Bank's continuous improvement initiative, the Bank took several initiatives to review and enhance policies and processes to manage the emerging risks, improve efficiencies and customer service aligned to business strategy and risk appetite. The Bank follows AAOIFI FAS 30 for impairment and business model classification for financial assets. The Bank is continuously improving internal standards of financial and non-financial parameters for the assessment of credit risk. This will further enhance our new client selection capabilities and will strengthen our credit underwriting terms and conditions to maintain the quality of asset booking. In addition, this has aided in controlling the quality of assets. Periodic stress tests and review of the portfolio by segments and sectors were undertaken to identify and proactively manage the portfolio through a robust and well ingrained early alert process of existing approved risk policies and adjusting them to changing regulatory and economic environments.

The Bank's Risk Management Group proactively monitors portfolios and implements strategies considering the external environment, focusing its areas of growth on selected segments. The Bank's risk approach is aimed to support portfolio growth within acceptable risk thresholds and ensure that the objectives of a well-controlled balance sheet are met. The Bank made progress in building balance sheet growth in assets and has taken important initiatives to diversify a portfolio and ensured that portfolio position across products is stable. Credit losses in retail and wholesale banking assets are the lowest in the industry and well within the risk appetite; they allow sufficient loss-absorption capacities in products to expand. The financial performance of all the assets is robust and all products generated healthy returns. The Bank will continue to focus on diversification of banking portfolios while maintaining the current risk level.

A critical component of risk management is liquidity risk. Therefore, the Bank developed policies and monitoring tools that enable management to assess liquidity gaps through a cash flow and static approach, creating reserve against deposits, monitoring financing ratio, and mitigating liquidity risk and contingency measures. To advance further to manage the risk, the Bank successfully implemented Basel III Liquidity and Capital Standards to meet regulatory requirements.

A risk that is inherent in the Bank's daily operations is defined as 'Operational Risk'. To minimize this risk and Operational Risk Management Policy was adopted and critical controls were implemented and enhanced as and when required at all levels of the organization. During the period in review, the Bank conducted a bank-wide 'Risk and Control Self-Assessment' to capture and assess all key processes and controls to address operational risks within various businesses and support functions. The Bank has also formed an internal committee (Operational Risk Management Committee) to oversee the implementation of operational risk policy at the bank level. During the period, the Bank conducted Business Continuity testing of all the critical functions to ensure the continuity of critical business in an unforeseen event and have also we have enhanced the IT infrastructure which will support our readiness in case of any contingency.

The Bank conducted its annual Internal Capital Adequacy Assessment Process (ICAAP) and a forward-looking stress test, which was validated by an independent external agency during the period under review. This process provides the Bank with an assessment of the potential risks and capital requirements under stressed scenarios, and through this exercise has developed a systematic approach to manage its capital requirements during the time of stress. The report is approved by the Board of Directors and submitted to the Central Bank of Oman (CBO). The Risk Management team actively tracks the developments from the Basel Committee on Banking Supervision on the global regulatory frameworks and CBO on-going guidelines for local regulations. The Bank progressively integrates relevant aspects of both the frameworks and regulations to build a more resilient Bank in Oman.

The Bank also conducted a validation exercise for its Rating Model for Corporate; Expected Credit Loss Model for Retail and Non-retail model and conducted a review by an independent external party on the same. This exercise aimed at improving the results of risk assessment and adequacy of reserves for any expected credit loss event.

Raising Awareness

Bank Nizwa has spearheaded several initiatives geared at advocating the concept of Islamic banking and the various advantages of opting for Sharia-compliant financing solutions.

The bank sponsored the 15th annual AAOIFI-IsDB conference organised by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Development Bank (IsDB), which was conducted virtually under the patronage of the Central Bank of Bahrain. The Bank also participated in the 2nd CIBAFI – UAB forum which was organised by the General Council for Islamic Banks and Financial Institutions (CIBAFI) and Union of Arab Banks (UAB). Bank Nizwa also partnered with The Business Year as the official banking partner of its conference in the Sultanate entitled "Oman vision 2040: the future of investments". These events provided an opportunity to provide valuable insights on the role of Islamic finance and future prospects as well as the the contributions of Islamic banks to the economic diversification of the Sultanate.

Continuing its leading efforts in raising awareness about Islamic Finance - Bank Nizwa joins hands with AAOIFI, Bahrain and Fingel Global Inc, Canada to launch iFinovation to host a series of webinars under the name iFinovation (Islamic Banking Knowledge Series). With a goal to spread awareness about Islamic finance among the masses as well as share the latest trends, developments and achievements of the sector, these virtual events slated to be the first of its kind in the Sultanate. The bank also signed a comprehensive MoU with AAOIFI, Bahrain, to become AAOIFI's official candidate registration and exam center for AAOIFI's Shariah (CSAA) and Accounting (CIPA) certifications.

In line with its mission to boost interest in the community about Islamic banking practices, Bank Nizwa signed a Memorandum of Understanding (MoU) with the Islamic Financial Service Board (IFSB) at the 15th IFSB Summit held in Jeddah, Saudi Arabia.

Corporate Social Responsibility

In strong alignment with the Sharia principles of giving back to the local community, Bank Nizwa has undertaken several sustainable initiatives that have not only helped in enhancing the well-being of individuals but have contributed significantly to promoting social development in the country.

Bank Nizwa acknowledges education as a cornerstone for the nation's ever-growing progress and has remained committed to its responsibilities to enhance the sector. As such, the bank extended its support to the Directorate General of Education in Al Batinah South by sponsoring various educational activities for the academic year 2020-2021. It also presented laptops to support students from low-income families in the Wilayats of Nizwa and Manah who were facing challenges in accessing online education during the Covid-19 pandemic.

Since 2013, Bank Nizwa's volunteering platform 'Masoliyati' has been at the forefront of initiating meaningful social campaigns and has recorded over 900 hours of service to date. In 2021, the 'Masoliyati' team organized an extensive food distribution campaign during Ramadan in the Wilayats of Seeb and Muscat while hosting a number of iftars at its branches. During the flooding at Sur, the team provided on-ground support and offered aid to families affected. An extensive team of volunteers also stepped forward to spearhead relief operations in North Al Batinah Governorate during Cyclone Shaheen while the bank donated RO 250,000 to support families affected by the cyclone in various governorates of the Sultanate.

Bank Nizwa's selfless efforts towards humanitarian causes, social initiatives and charitable programs have earned it commendable recognition in the local community and has reiterated its position as a leading Islamic financial institution that upholds strong values of philanthropy, public service and community involvement.

Awards & Accolades

Cementing its position as a leading Sharia-compliant bank in the Sultanate, in only 8 years of operation, Bank Nizwa has won more than 35 local, regional and international recognitions including several awards that recognize its strong investment in human capital.

During last year the bank won 15 awards including: 'Best Islamic Bank in Oman' at the Islamic Finance News (IFN) Best Banks Poll 2020 in the category of innovation, creation and tradition, 'Top Performing Bank' in the mid-size banks category in Oman by OER and U-Capital Best Banks Survey

2020 and the Best Wholesale Banking Service Provider – Oman 2021 by Global Business Outlook. The bank won as well the Oman Domestic Foreign Exchange Bank of the Year award at the prestigious Asian Banking & Finance (ABF) Wholesale and Retail Banking Awards 2021. Moreover, the bank was awarded with Strongest Islamic Retail Bank in Oman for 2021 at the Islamic Retail Banking Awards and Excellency in Wealth Management Award by AIWA magazine. In the Alam Al Iktisaad Awards 2021, Bank Nizwa was awarded the 'Best Performing Company (Large Cap)' award.

Building Brand Equity

As Oman's first and fastest-growing Islamic bank, Bank Nizwa has upheld its position as the preferred Islamic banking partner for its customers through its unparalleled commitment to consistent innovative strategies, capitalizing on the latest technological advancements and demonstrating resilience in all areas of its operations even in the face of unprecedented challenges.

Recognized as the best Islamic bank in Oman, Bank Nizwa has recorded stellar growth in profits throughout 2021. Through its collaborative approach to supporting local businesses, its keen focus on contributing to key national projects and aligning itself to the broad objectives of Oman Vision 2040, the bank has played a catalytic role in the socio-economic progress of the nation.

By honouring its sustainability goals, exceeding set targets for the year and staying committed to realizing shareholder aspirations, the bank has set innumerable benchmarks in the industry and cemented its position as the most prominent Islamic bank in the Sultanate.

Sharia Governance Process

Compliance to Sharia principles and requirements are inherently built into the Bank's end-to-end activities and transactions including products & services by following a comprehensive Sharia Governance Framework which comprised of several key elements listed below that sets the standards and implementation that ensure holistic Sharia compliance:

1. Islamic Banking Regulatory Framework (IBRF)

A 'rule book' issued by the Central Bank of Oman on Islamic banking that sets guidelines on Sharia Governance and its relevant Sharia functions, Risk Management and Accounting Concepts and general product features which are permitted in Oman for Islamic banks in tandem with Oman Banking Law.

2. AAOIFI Standards

Sharia, Accounting and Governance Standards are published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) [and being referred to by CBO in IBRF], represent a major reference especially for Sharia compliance in the Islamic banking sector. Sharia resolutions, which are not readily available in the AAOIFI Sharia standards, are covered by resolutions from SSB.

3. Sharia Supervisory Board (SSB)

SSB members are well-respected Omani and International Sharia scholars who review and provide Sharia resolutions and Fatwas on all products and related processes. This is in addition to overall Sharia supervision and oversight activities to ensure that the Bank's transactions and operations are Sharia compliant at all times. The SSB, which meets on quarterly basis, consists of Sheikh Dr. Mohammad bin Rashid Al Gharbi (Chairman), Sheikh Dr. Aznan bin Hasan (Deputy Chairman and new member) and Sheikh Dr.Ibrahim bin Nasser Al Sawwafi (Member)and Sheikh Dr.Ali Bin Suliman Aljahdami (Member).

SSB has established a Sharia Executive Committee (Sharia ExCom), comprising of Sheikh Al Gharbi and Sheikh Al Sawwafi, and Sheikh Aljahdami ,which meets on a monthly basis to review the Bank's business from a Sharia perspective and consider current business requirements. Sharia ExCom resolutions are based on previous SSB Sharia guidelines and Fatwas.

4. Internal Sharia Reviewer (ISR) / Head of Sharia

ISR assumes the responsibilities of Head of Sharia Department. The functions include supervising Sharia audit and providing Sharia training. The major technical role of ISR is to execute Sharia review financing proposals in coordination with the Head of Sharia Structuring. Review of proposals within current approved product programs and Sharia Supervisory Board guidelines are presented to the respective business units as part of the required documents for execution. This function is the pre-execution Sharia review activity.

In addition to these daily functions, the ISR with assistance from the assigned team member acts as the coordinator for the SSB and prepares the meeting file and the minutes of meetings. Sharia resolutions and guidelines are then communicated to the respective business unit heads for adherence. Any approval required from business units before the next meeting of SSB is communicated by the ISR to SSB members by email for review and providing Sharia resolution. SSB has also delegated specific authorities to Sharia Ex-com whereby its members are entitled to issue Sharia resolutions. ISR also prepares the agenda and documents, and minutes of meetings for Sharia Ex-com and communicates its Sharia resolutions to relevant business unit heads.

5. Sharia Structuring & Compliance

This function provides Sharia review and supervision for business transactions and support function activities before execution (ex-ante) to confirm that structuring has been concluded based on IBRF, AAOIFI, and SSB Sharia guidelines and controls. Consequently, Sharia Review Reports (SRR) are prepared to document this supervision activity and presented to Sharia Ex-com and SSB in the monthly and quarterly meetings. This function forms the core of Sharia activity in the department, and is responsible to advise on any new Product Development activity as well review of Product Programmes and its ancillary documentations. To support the Sharia compliance activity, Sharia non-compliance risks are continuously scrutinised, and specific mitigation controls are set to minimise these risks, which occur due to unintentional human errors. Any income of Sharia non-compliant transactions are diverted to charity as per SSB guidelines.

6. Sharia Audit Function

This is a dedicated function within the Bank that reports directly to the SSB, staffed with experienced professionals who conduct Sharia audit after execution of transactions to confirm adherence to Sharia guidelines as issued by SSB and as per Sharia reviews (ex-post). The function is also responsible to ensure the Profit Distribution Mechanism on Mudaraba accounts is properly executed aside from ensuring all incomes generated from banking transactions and services are not tainted, which may render it Sharia non-compliant, in which case it has to go to charity. Any Sharia non-compliance event is immediately reported to Sharia Ex-com for review and decision and further reported to SSB for next course of action / Sharia rule.

7. External Sharia Audit
As required by IBRF, the Bank appoints an independent and qualified external Sharia Auditor to audit the activities of the Bank on an annual basis.

8. Sharia Training
To ensure that all members of Management and staff have sufficient working knowledge of Islamic banking principles and guidelines, Sharia compliance department staff continues to exert major focus on Sharia training so that these principles are understood and practiced. Sharia training also encompasses external parties based on an awareness campaign on Islamic banking for all constituents of society such as schoolteachers and students, university students, employees in ministries and public sector institutions.

9. Non-Sharia Compliance Risk
Based on the Sharia guidelines in the IBRF concerning Sharia Non-Sharia Compliance Risk function, the Manager of Sharia Non-Compliance Risk Unit (SNCRU) identifies, measures, monitors, controls, and manages Sharia non-compliance risks in the Bank arising from failure to comply with Sharia rules and principles as set by IBRF issued by CBO, and Sharia standards issued by AAOIFI, and the Sharia rulings and guidelines issued by SSB. The Manager also assists the ISR in identifying the Sharia non-compliance risk parameters for each department or function.

- SNCRU measures quantitatively the volume of the identified parameters and detect any Sharia non-compliance events for each parameter.
- SNCRU monitors the development of the Sharia non-compliance parameters during the year periodically.
- SNCRU provides reasonable control measures to establish assurance of the soundness of operations, which prevent violations to Sharia compliance measures and guidelines.

Human Resources

Employees are the driving force behind the Bank's success. Bank Nizwa believes that employees are the major asset for the organisation and efforts were centred on advancing their capacities and capabilities to become tomorrow's leaders in Islamic banking. As a result of this aspiration, the Bank witnessed higher achievements and stronger performance in 2021 despite of continuous macroeconomic pressures caused by the pandemic. The Bank's HR function played a vital role in taking care of its staff in 2021. All health measure and guidelines issued by the Supreme Committee were followed during the challenging working conditions of the year.

Throughout the pandemic, one of our main targets was to ensure employee safety and business continuity. During the year, HR led a successful vaccination campaign for all bank Nizwa staff and their dependents.

In order to foster great organizational culture, the bank's employees conducted a satisfaction survey. The aim was to build a healthy culture that focuses on employee retention, moral boosting and the assurance of organisational continuity and success

As part of the HR strategy, the Bank maintains a performance management approach to build a 'pay for performance' culture and develop a proper Succession Planning programme by providing a select group of high-potential employees with the required functional and technical skills. The Bank looks at this as a critical part of integrated approach of managing and developing its employees.

Attracting & Recruiting Talent
The Bank ended the year with 416 employees in 2021. Bank Nizwa continued to selectively recruit the necessary talent required by identifying Omani talents to service a comprehensive range of client segments and selective industries. The Bank aims to be an 'employer of choice' attracting the best and brightest talent in the local market by hiring exceptional fresh graduates who demonstrate great promise, as well as highly qualified professionals with notable industry experience.

To this end, the Bank implements precise and clear recruiting policies based on levels of educational and professional qualifications and the suitability of the specialisation for vacant positions. Similarly, the Bank is fully committed to retaining key talents.

Training & Development
In 2021, the HR department has applied many strategic projects intended to improve over employees' performance, effectiveness and productivity. This was accomplished by focusing on talent management and employee training. The bank conducted various programmes for all employees, focusing on top management, middle management and junior employees as well. The Bank continued to build its e-library and 'going agile' during the COVID-19 pandemic has helped in expediting training. The aim is to develop all employees and cater to the need for succession planning. In fact, in 2021, Bank Nizwa's training delivery increased with to the availability of the e-learning platform for individuals as well as for groups.

Bank Nizwa believes in the significance of qualifying and training all categories of employees by providing them with the appropriate skills in various banking and management areas, Customer service and quality, which would in turn enhance their knowledge and experience and enable them to develop their capabilities and expertise thereby enhancing overall performance.

The Bank's strategic training and development initiatives during 2021 focused on continuing to enhance the skills of all employees by providing high-level training in all functional categories across the Bank's various departments and branches. With an e-learning platform and various other opportunities, the Bank provided access to a vast amount courses to equip our employees with different sets of Knowledge and skills, either technical that focus on Islamic Banking Training, Product Development, Sales Leadership, Risk Management, Wealth Management, Corporate and Retail Banking, or Soft Skills. These cutting-edge training programmes reflect the latest developments in banking technology; they also support in engaging employees in specialised activities to augment their qualification and knowledge, and to enhance their work value and ethics in line with Bank Nizwa's vision and aspirations.

In the continuous endeavor of the Human Resources Department to provide appropriate solutions in light of the COVID-19 crisis, in 2021 it adopted digital solutions through the "Islamic Market Enterprise" platform to provide specialized training and educational materials in the Islamic banking and finance sector, designed by industry leaders.

Employees are able to navigate the global Islamic economy and can access a broad library of practitioner-led learning modules specifically geared towards Islamic banking and finance. In addition, they are also able to benefit from market insights and best practices shared by industry leaders and experts in exclusive interviews on the live broadcasting platform for the Islamic financial markets, IMTV.

In an effort to provide support for our employees to keep abreast with the latest developments in the market and unlock commercial opportunities, employees are now able to access unrivalled and premium data and financial intelligence on the global Islamic economy through Islamic Markets IQ and the opportunity to connect with over 500,000 professionals and institutions through IM Messenger.

Towards building an effective HR team Bank Nizwa provided workshop on "HR Transformation", the sessions included coaching for the HR team and topics related to digital transformation, Succession Planning, Employee Engagement, Leadership and Management.

In an endeavour to raise the skill levels and empower Omanis for middle and senior management positions, 13 of Bank Nizwa's employees were nominated to enrol in the Leadership Programme, 'High Potential Employees (HiPo)'to LDP – Leadership Development Program along with the National leadership Programme 'Etimad'. In addition, Bank Nizwa supported over 16 employees to pursue academic and professional qualifications that would develop their professional competency such as CMA, CBBM, CFE, CSAA, ACI, Masters etc.

Compensation & Benefits

Bank Nizwa developed a workforce to optimise the balance between supply and demand for capabilities, and to manage the cost and employee base more efficiently and effectively in the long term. The Bank's strategic plan is 'pay for performance'.

HR has closely monitored the progress of the implementation of the equity, fairness and competitive pay. The Bank has applied performance appraisal system where annual variable and merit-based remunerations of the employees were linked to the performance system. The Bank participates annually in an Industry Salary Survey with a professional HR Services company to compare its pay position to the market, and to make appropriate decisions based on the results of the survey in order to position compensations appropriately.

Moreover, the Bank continuously enhances its HR systems to help speed-up HR processes like payroll, recruitment, training, employee payments, and employees' self-service. The aim is to ensure HR practices and decisions reinforced agile values and principles.

The Bank continuously strives to create sustainable processes to ensure that compensation structures for employees are appropriately aligned with regulatory requirements and drive sustainable performance at all levels.

Information Technology

Bank Nizwa's Information Technology is fully aligned with its mission to be the 'Digital Bank of choice'. To achieve robust, secure and flexible IT platforms, the Bank embarked on the complex journey to modernized its entire IT Infrastructure during 2021; by upgrading its Storage, Servers, and Network & Security frameworks. The bank continued to invest in innovation and created a unique digital experience for its customers, simultaneously providing an equitable platform to the Bank for future business growth. Innovation is well embedded in the bank's strategy, giving a clear advantage to our business partners to look forward for enhancement of customer facing applications and improvise corresponding back-end process and systems.

Leveraging on available technology, IT has improvised and on-boarded multiple operational processes to digital platform, which created a constant and seamless flow between business and Operations. This gives a clear monitoring track of flow management and this is likely to improve customer experience continuously.

Some of the major initiatives in 2021 includes implementation of SMS based account statements, Instant Salary Advance, Card-less Cash withdrawal, Debit card management services through mobile APP, 24x7 Interbank transfers using ACH,VAT systems, ERP upgrade, EDMS implementation Enhancements and upgrades continued in Corporate Internet Banking, IVR and credit card services with a view to create greater customer satisfaction. Multi-fold developments included the GCC-RTGS Implementation, ID CARD System Upgrade and selection of IFRS 9 solution.

In a rapidly evolving digital environment, this commitment is anchored on preserving robust customer relationships by cultivating trust, relevance and convenience through every banking channel. Significant investments were made in future-proofing platforms and in embracing cutting-edge technologies such as artificial intelligence, data science, robotics to better serve our customers. Upgraded network and IT systems plays a paramount role in giving a standout image to the bank in Oman's competitive banking environment. Some of the large transformation programs that will continue into 2022 includes Core Banking transformation and implementation of multiple Digital Banking solutions.

Against a dynamic backdrop in the business, technology and threat environments, Bank Nizwa maintains an exact balance in tighter system security. In line with the Bank's process-centric approach that focuses on continuous improvement, several initiatives have been implemented to enhance its disaster recovery with enhanced security and robustness of the systems. The Bank implemented initiatives like Automatic Patch management system, Self-Service Login password reset, IPV6 enablement for externally hosted services, ATM hard-disk encryption, latest version upgrade of Windows & Linux operating systems, Oracle & SQL Server databases and end-user desktops along with multiple security solutions like Email security including sandboxing, Mobile device management solution, Endpoint protection, Managed file transfer, RSA and SSL VPN.

The journey has just begun and we are poised to sustain and improve continuously, keeping our customers and business at the centre of everything we do..

Going Forward

We are moving forward with passion and confidence as we continue to build our high-performing, sharia-compliant technology-driven, future-ready bank with leading efficiency, profitability and loyalty – all powered by our Values and Purpose.

Our purpose, of improving the financial wellbeing of our customers and the community, has provided the Bank with a strong sense of direction throughout the past year. As the pandemic persisted into the 2021 financial year, the Bank continued to defer repayments, which helped ease financial pressure, and uncertainty, for both individuals and businesses.

Around the world, economies are reopening as safe and effective vaccines are steadily reaching populations, slowing the spread of COVID-19. As such, we are optimistic about the future. The country is already at the stage of recovery from the impact of the pandemic, we are focused on helping our customers regain momentum and make real financial progress. We have witnessed their resilience as they have adapted to meet the challenges the pandemic has brought.

Today, the energy of the economic recovery brings with it an unprecedented opportunity to make progress. It is a unique moment, and we can harness that energy, as the economy is naturally buoyant as a result of pent up demand, fiscal reforms that Government has taken and favourable oil prices. As such, we expect fast growth over the medium term.

Given that the private sector is expected to play a pivotal role in capital formation, the focus of the government is not only to improve the investment climate and promote public-private partnership but also to give significant support to the small and medium enterprises by allocating some of the government projects to this sector. In addition, the government will ensure the swift implementation of the National Program for Enhancing Economic Diversification ('Tanfeedh') initiatives. The positive recent fiscal and government initiative providing support to the economy will increase the demand for credit. This is encouraging. The Government is establishing programmes that will grant numerous opportunities to broaden the country's economic base, both vertical expansion of the sectors dependent on oil and the development of non-oil sectors such as manufacturing, fisheries, transportation & logistics, tourism and mining. The economic and structural reforms will improve multiple fronts, including financial and social objectives.

The Sultanate's economic environment and specifically the banking sector will continue to capitalize on its key competitive advantages. In addition, local authorities are working on enhancing the digital landscape in the country by introducing the latest technologies in the public sector, which will promote research and innovation in the country.

The growth of Islamic Banking in the Sultanate is most encouraging. It has become significant in a short span of time, through various support and policy measures adopted by the Central Bank of Oman. As we progress, standardised liquidity management frameworks and instruments, diversified financing portfolios and innovative Islamic finance products will play a crucial role in developing this sector. With the introduction of new products, especially for corporate customers and SMEs, and Sharia-compliant liquidity management tools, Islamic Banking will continue to grow steadily and achieve all potential opportunities.

Bank Nizwa's values of being driven, principled, innovative and helpful are the pillars of its strategic approach in providing a diverse set of products and services. In line with the bank's five years strategy 2025, to support the next phase of growth and increase returns for the shareholder, the Bank shall leverage its capital strength and will invest in critical infrastructure to support the growth plan. The bank is leading the sector's growth on multiple fronts including corporate banking, international banking, trade finance and treasury among others. Through strategic partnerships, the Bank is positioned well to spearhead the growth of Islamic finance and solidify its leadership in the sector. The Bank will continue to expand its client franchise organically by deepening client relationships, training and retaining talents, and investing in the right products and services.

Going forward, we will continue to look for growth opportunities, as the headwind becomes tailwind and we transition from the post-pandemic economic reopening to the recovery. We will continue our momentum and will strengthen the financial lives of our customers. We will continue to play a significant role in supporting the government's diversification plan as well as towards Oman Vision 2040. With a solid business model, strong fundamentals and the right strategy in place, we will focus on enhancing capabilities, our digital presence and synergies across our businesses throughout 2022, as well as diversifying our customer base across product and service lines. Looking at the future, we are confident of setting new industry benchmarks and placing Oman higher on the Islamic banking landscape globally.

In conclusion, I would like to acknowledge the contribution of our team members and thank them for their commitment to our vision and performance during these difficult times. Our achievements would not have been possible without the support and guidance of the Central Bank of Oman, the Chairman, Sheikh Khalid Abdullah Ali Al Khalili, the Board of Directors and the Executive Management team for their support, guidance and efforts as we continue our journey to grow our market share. Most importantly, I would also like to express our appreciation to our customers and shareholders for their continued trust, loyalty and support rendered throughout our journey. I look forward to another exciting year ahead.

Khalid Al Kayed
Chief Executive Officer

KPMG

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Independent Limited Assurance Report on Control Procedures Relating to Shari'a Compliance and Governance Structure of Bank Nizwa SAOG

To the Board of Directors of Bank Nizwa SAOG

Introduction

We were engaged by the Board of Directors of Bank Nizwa SAOG ("the Bank") to report on Bank's management's report on control procedures relating to Shari'a Compliance and the assertions related to the compliance with Islamic Banking Regulatory Framework ("IBRF") issued by Central Bank of Oman ("CBO") and guidelines of Shari'a Supervisory Board ("SSB"). The management report ("Report") as set on pages 39 to 51 for the year ended 31 December 2021, in the form of an independent reasonable assurance conclusion about whether Bank's statement that the Report is properly prepared, in all material respects based on the requirements of the IBRF related to Shari'a Compliance, guidelines and decisions of SSB, Shari'a standards as issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), and the Shari'a Governance Structure was suitably designed and implemented is fairly stated.

Management's responsibility

The Management of the Bank is responsible for preparation and presentation of the Report that is free from material misstatement including completeness, accuracy and development of control objectives of the Shari'a Compliance and Governance Structure; in accordance with relevant provisions of the IBRF issued by the CBO, the guidelines and directives issued by its SSB and Shari'a standards as issued by AAOIFI and for the information contained therein. The Management of the Bank is also responsible for the prevention and detection of fraud, error and non-compliance with the laws and regulations applicable to the activities of the Bank including compliance with IBRF and guidelines and directives issued by the SSB.

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Our responsibility

Our responsibility is to examine the Report prepared by the Bank and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements ("ISAE") 3000, assurance engagements other than audits or reviews of historical financial information issued by the International Auditing and Assurance Standards Board and the Auditing Standard for Islamic Financial Institutions (ASIFI) 6 "Independent Assurance Engagement on Bank's Compliance with Shari'a Principles and Rules (External Shari'a Audit), issued by AAOIFI. These standards require that we plan and perform our procedures to obtain reasonable assurance about whether the Report, is fairly stated, in all material respects.

The firm applies International Standard on Quality Control 1 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.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Report whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Report in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Bank's internal control over the preparation and presentation of the Report. Our engagement also included: assessing the appropriateness of the Report, the suitability of the criteria used by the Bank in preparing the Report in the circumstances of the engagement, evaluating the appropriateness of the procedures used in preparation of the Report and the reasonableness of estimates made by the Bank and evaluating the overall presentation of the Report. Reasonable assurance is less than absolute assurance.

Work performed

Our work mainly included:

1) Discussion with the Bank's Management on the Shari'a compliance and governance structure of the Bank;

2) Review of documentation and systems established by the Bank to develop Shari'a compliance and governance framework, in order to develop an understanding of the Shari'a compliance and governance framework and an understanding of the related internal controls. This includes:

   a. Review of minutes of meetings of Shari'a Supervisory Board and Board of Directors;

   b. Review of policies and procedures;

   c. Review of selected job descriptions;

   d. Review of reports prepared by the Shari'a Supervisory Board; and

   e. Review of reports prepared by the Internal Shari'a Auditor;

3) Assessing the risks that Management's assertion on the description of controls may be materially misstated;

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Work performed (continued)

4) Performing further procedures on the identified risks, as deemed appropriate, using a combination of inspection, observation, confirmation and inquiry;
5) On a sample basis testing of transaction level controls listed in the Management's Shari'a compliance and governance report;
6) On a sample basis testing of product specific controls listed in the Management Shari'a compliance and governance report;
7) Review of pool management and profit distribution system of the Bank;
8) Checking on compliance with employee training procedures of the Bank; and
9) On a sample basis, testing of other controls listed in the Shari'a compliance and governance report.

The scope of our work is also in compliance with 'scope of the auditor's work' as outlined in AAOIFI Auditing Standard No.4 regarding "Testing for Compliance with Shari'a Rules and Principles by an External Auditor".

As part of this engagement, we have not performed any procedures by way of audit, review or verification of the Report nor of the underlying records or other sources from which the Report was extracted.

Characteristics and Limitations of the Report

The report on control procedures relating to Shari'a compliance is prepared to meet the needs of a range of users and may not, therefore, include every aspect of the control procedures that each user may consider important in their own particular environment.

Our procedures regarding adequacy of systems and controls relating to the Bank's compliance with the SSB guidelines and directives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, such procedures may not be relied upon as evidence of the effectiveness of the systems and controls against fraudulent collusion, especially on the part of those holding positions of authority or trust.

The conclusion relates only to the year ended 31 December 2021. The conclusion does not provide assurance in relation to any future periods as changes to systems or controls may alter the validity of our conclusion.

Criteria

The criteria for this engagement against which the Management's Shari'a Compliance and Governance Report for the year ended 31 December 2021 is assessed comprise the Shari'a principles and rules that for the purpose of external Shari'a compliance audit means the following, in the sequence provided below:

a) The regulations issued by the Central Bank of Oman's ("CBO") Islamic Banking Regulatory Framework insofar as these entail the regulatory Shari'a requirements;
b) The rulings of the CBO's High Shari'a Supervisory Authority;
c) The Shari'a standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
d) Approvals and rulings given by the Shari'a Supervisory Board of the Bank. The above criteria was applied for its implications on the financial statements of the Bank for the year ended 31 December 2021, which are annexed.

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Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the Bank's management's assertion that the Report is properly prepared, in all material respects based on the requirements of the IBRF related to Shari'a Compliance, guidelines and decisions of SSB, Shari'a standards as issued by AAOIFI and the Shari'a Governance Structure was suitably designed and implemented is fairly stated.

This engagement was conducted by a multidisciplinary team including assurance practitioners and subject matter (Shari'a) experts.

Our Shari'a expert for this engagement was Mr. Jalil Al Aali. He is a Partner and Head of Financial Services with KPMG in Bahrain. He is a fellow member of the Chartered Association of Certified Accountants, UK (FCCA). He was the past chairman of the Accounting Committee of the AAOIFI and has been involved in developing a number of accounting standards for AAOIFI. He is KPMG's primary point of contact with the Central Bank of Bahrain and advises clients on strategic regulatory and business initiatives. Jalil has led several advisory engagements including setting up and licensing of Islamic banks, capital restructuring and audits of Islamic Financial Institutions. Jalil is a sector expert by drawing on his experience of auditing large FS and retail banks (conventional and Islamic). He led several Shari'a engagements.

The Shari'a expert was subject to the same confidentiality and independence requirement, as applicable to us for this engagement.

Intended Users and Purpose

In accordance with the terms of our engagement, this independent reasonable assurance report on the Bank's Shari'a compliance and governance framework and its compliance with the relevant provisions of the IBRF and guidelines and directives issued by the SSB, has been prepared for the Board of Directors of the Bank and the Central Bank of Oman, solely to assist the management to meet the requirement of clauses 2.5.1.22 to 2.5.1.24 of Title 2 of IBRF and circular no. BDD/IB/CB/2013/7941 dated 2 September 2013 issued by the Central Bank of Oman, and for no other purpose or in any other context.

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Bank and Central Bank of Oman for any purpose or in any context. Any party other than the Bank and Central Bank of Oman who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. We accept or assume no responsibility and deny any liability to any party other than the Bank and Central Bank of Oman for our work, for this independent reasonable assurance report, or for the conclusions we have reached.

Our report is released to the Bank and Central Bank of Oman on the basis that it shall not be copied, referred to or disclosed, in whole (save for the Bank's own internal purposes) or in part, without our prior written consent.

A long form report highlighting key matters noted during the course of the engagement is being issued separately to the Board of Directors of the Bank as of the date.

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KPMG LLC

13 March 2022

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Management's Report on Control Procedures Relating to Sharia Compliance and Governance Structure and Management's Statement of Compliance with the Sharia Principles and Rules.

For the year ended 31 December 2021

Management's Report on control procedures relating to Sharia compliance and governance structure

Bank Nizwa (the "Bank") was established in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Sharia Rules and Principles. The Bank operates under an Islamic wholesale and retail banking license granted by the Central Bank of Oman ("the CBO") on 3 April 2012 The management of the Bank, under authorization from the Board of Directors ("BoD") of the Bank, is responsible for establishing and maintaining adequate internal controls to ensure Sharia compliance at all times. These controls are designed and implemented under the supervision of the Sharia Supervisory Board ("SSB") to provide assurance regarding compliance with respect to Islamic Sharia Rules and Principles.

While the SSB is responsible for forming and expressing an opinion on the extent of the Bank's compliance with Sharia, the responsibility of compliance rests with the management of the Bank, to enable management to carry out this responsibility effectively, the SSB of the Bank shall assist by providing guidance and advice relating to compliance with Sharia. The presence of the SSB and Sharia Audit and Compliance function of the bank does not relieve the Bank's management of its responsibility to undertake all transactions in accordance with Sharia.

As per objectives listed in Appendix B, the following are the broad categories in which the abovementioned control procedures are designed:

a. Sharia Governance
   - Structure for Sharia coordination and implementation and oversight
   - Sharia framework

b. Control environment
c. Transaction level controls
d. Product specific controls
e. Investment level controls
f. Hiring process, employee training and awareness
g. Other controls

Details of each category are provided in sections Appendix A

Based on the control objectives listed in Appendix B, we believe that:

a) The control procedures listed in Appendix A fairly present the Bank's controls designed and implemented throughout the period from 1 January 2021 to 31 December 2021;

b) The control procedures listed in Appendix A were suitably designed throughout the period from 1 January 2021 to 31 December 2021; and

c) The controls procedures listed in Appendix A operated effectively throughout the period from 1 January 2021 to 31 December 2021.

Approved by the management of the Bank on 06/01/2022

Chief Executive Officer	**Internal Sharia Reviewer**

Appendix A

1. Control procedures relating to Sharia compliance and governance structure

1.1 Overview

This report provides information about the control procedures (Appendix A) which are designed, implemented and maintained by the Bank to achieve the Sharia compliance objectives (Appendix B) during the period from 1 January 2021 to 31 December 2021. These control policies and procedures are regularly reviewed by the management, and accordingly may, from time to time, be modified with a view to achieving the control objectives. No representation is made to any parties that future control policies and procedures will reflect current practice.

All control systems have inherent limitations and cannot guarantee the totally effective operation of systems, nor the total completeness and accuracy of the records. Also, they cannot necessarily prevent fraudulent collusion.

1.2 Sharia Governance

1.2.1 Structure for Sharia coordination and implementation and oversight

a) Articles of Association permit the Bank to carry out all Islamic banking business activities.

b) The Sharia governance framework of the Bank is in line with CBO's regulations, resolutions and directives and market best practices. The Sharia governance framework of the Bank includes:

   i. Shariah Supervisory Board (SSB);

   ii. Internal Sharia Reviewer;

   iii. Sharia Compliance Structuring Unit;

   iv. Sharia Audit Unit;

   v. Sharia Training Unit; and

   vi. Sharia Non-compliance risk unit.

c) The SSB of the Bank comprises of Four (4) Muslim scholars specialized in Fiqh Al Mu'amalat holding an overall experience of over 10 years (in teaching, research, and Fatwa issuance). These members have extensive experience in the field of Islamic banking and finance and meet the fit & proper criteria specified by the CBO. The structure of the SSB is as follows:

No.	Name of the Scholar	Qualification	Position in the board	Nationality
1	Dr. Mohammed bin Rashed Al Gharbi	• Bachelors Degree • Masters Degree • PhD in Islamic Sciences	Chairman	Omani
2	Dr. Aznan Bin Hasan	• Bachelors Degree in Sharia • Masters Degree in Sharia • PhD in Sharia – Wales University	Vice Chairman	Malaysian
3	Sh. Ibrahim Bin Nasser Al Sawwafy	• Degree of high judicial license • Professional Sharia Auditor certified by AAOIFI.	Member	Omani
4	Sh. Ali Al Jahdami	• Bacherlors Degree in Fiqh • Masters in Economics and Islamic Banking • PhD candidate in Fiqh	Member (Non-voting)	Omani

d) The appointment of SSB members is formally documented by the Bank via a formal offer letter duly signed by the respective SSB member;

e) The appointment of the SSB has been approved by the shareholders of the Bank;

f) A charter for the SSB has been approved by the Board defining the scope of work for the SSB. The charter includes, at a minimum, the following:

   i. Purpose of the charter;

   ii. Authorization of the charter;

Appendix A

iii. Membership of the SSB;
iv. Composition of the SSB;
v. Chairperson;
vi. Secretary;
vii. Possible cause/course of removal and replacement of a Member;
viii. Authority of the SSB;
ix. Responsibilities of the SSB;
x. Meetings / meeting frequency;
xi. Quorum;
xii. Agenda;
xiii. Meeting minutes;
xiv. Voting and decisions;
xv. Amendments to the charter; and
xvi. Relationship with the BoD and Management of the Bank and its various departments.

g) The roles and responsibilities of the SSB include the following:

i. To supervise the Bank's operations and activities to ensure compliance with the Islamic Sharia, and also monitor and review transactions to ensure full compliance with Sharia rules and principles and SSB pronouncements;

ii. To approve the internal Sharia audit annual plans;

iii. To notify the CBO in case of any failure by the Board of directors to effectively deal with any major Sharia non-compliances of the Bank;

iv. To approve all relevant documentation for new products and services, including contracts, agreements, marketing and promotional materials or other legal documentation used in the Bank's business transactions must be approved by the SSB;

v. To review and approve the Bank's annual Zakah calculations on behalf of the shareholders;

vi. To put on record, in written form, any opinion that it gives on Sharia-related issues;

vii. At least one SSB member be present at the AGM to respond to any enquiries from the Banks' shareholders during the discussion of the end of year financial results;

viii. To review the reports and observations of the Sharia coordination and implementation function and internal Sharia audit function and provide advice on such reports and observations;

ix. To approve the profit/loss allocation to the investment account holders;

x. To specify the means of disposal of earnings that have been realised from sources or by means prohibited by Sharia rules and principles;

xi. To approve the appointment and removal of the head of internal Sharia reviewer function and supervise and approved the Sharia compliance and structuring and internal Sharia Audit Units' work;

xii. To develop its own operating procedures;

xiii. To report administratively to the Board of directors to meet with the Board of directors of the Bank at least once a year to discuss issues of common interest. Such meeting must have a clear and specific agenda including the difficulties faced by both parties and ways to resolve them;

xiv. To submit the SSB report, as part of the annual report, to the shareholders with a copy to the Board of directors and the CBO as per AAOIFI, on the Bank's Sharia compliance, provided that the SSB report includes any non-compliance issues to the Sharia rules and principles; and

xv. To ensure that information obtained in the course of their duties is kept confidential.

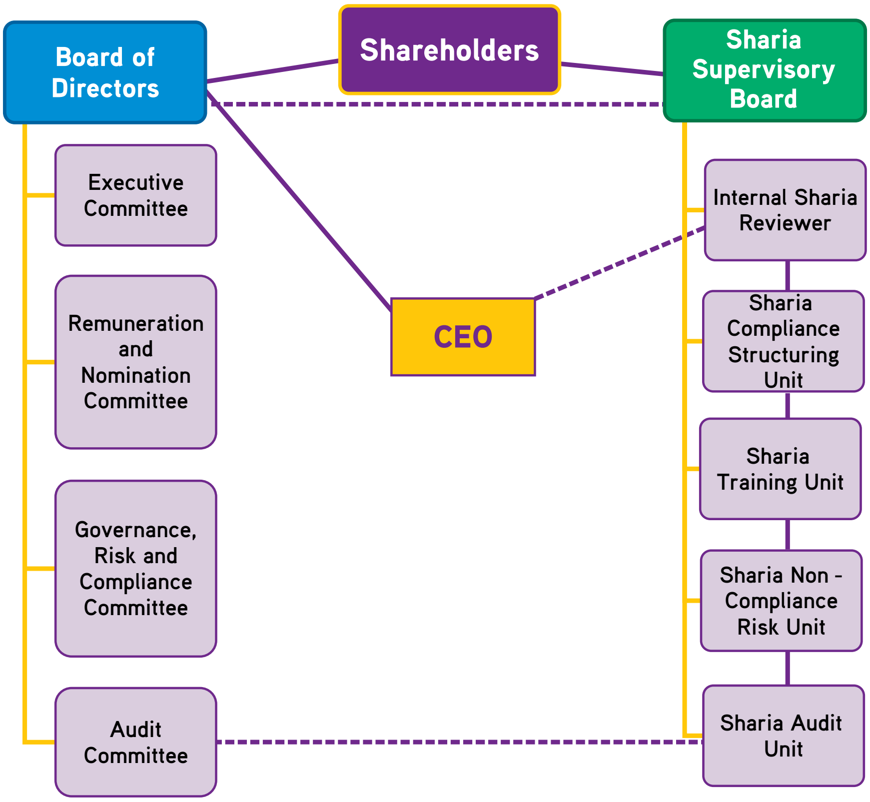
Appendix A

1.2.2 Sharia framework

Overview

a) Dr. Mansour Ali Al Qudah, the Internal Sharia Reviewer has been appointed by the SSB on 8 March 2017 and by the CBO on 16 January 2017 and has been included in the organizational structure of the Bank;

b) Dr. Mansour Ali Al Qudah is a full time employee of the Bank heading Sharia Department and supervising Sharia



Compliance Structuring Unit (SCSU), Sharia Audit Unit (SAU) of the Bank, and Sharia Training Unit (STU), and Sharia Non-compliance risk unit (NSCRU) of the Bank, appointed by the Management in consultation with the SSB and the approval of the CBO. Sharia Officer reports to the SSB independently from the Management;

c) Dr. Mansour Ali Al Qudah has the added role of secretary to the SSB;

d) Dr. Mansour Ali Al Qudah reports to the SSB independently from Management;

e) Policies and procedures are in place which are up to date and approved by the SSB. On an overall basis, the policies and procedures include:

   i. References to relevant regulations issued by the Central Bank or other regulatory authority; and

   ii. Procedures to be followed in case of deviations from prescribed parameters and guidelines.

f) Operational procedures are approved by the Board of Directors and matters related to Sharia principles are approved by the SSB;

g) Roles and responsibilities of Internal Sharia Review and Sharia Compliance Structuring Unit and Sharia Audit Unit and Sharia Non-Compliance Risk Unit and Sharia Training Unit are defined and documented in the Sharia Compliance Policy and Procedures Manual. The Sharia Compliance Policy and Procedures Manual is approved by the Bank's SSB. Responsibilities include a review of:

   i. Bank's organization structure (to ensure that the structure and segregation of functions is appropriate for undertaking Sharia compliant activities);

   ii. Agreements/contracts (including employee/supplier contracts);

   iii. Policies and procedures;

   iv. Product manuals;

Appendix A

v. Product structures;

vi. Transactions;

vii. Bank's memorandum and articles of association;

viii. Financial statements;

ix. Reports (internal management reports and external reports); and

x. Advertisements and other communications to general public;

h) Job descriptions and update organization charts are in place for key positions that are approved by the Board of Directors or SSB as applicable;

i) All new products, services and product structures are reviewed by Internal Sharia Reviewer and approved by the SSB before being offered to customers. Such information is documented in SSB minutes meeting and in the Bank's policies and procedures; and

j) New software or other systems (if any) implemented in the Bank are reviewed and approved by the Bank's Internal Sharia Reviewer.

Sharia Compliance Structuring Unit

a) Sharia Compliance Structuring Unit is governed by the Sharia Compliance Policy and Procedures Manual prepared by the management, vetted by the SSB and approved by the BoD;

b) Sharia Compliance Structuring Unit facilitates the Management in ensuring compliance with Sharia (as manifested by the guidelines and Fatawa issued by the SSB) and Islamic banking stipulations of the CBO on a day to day basis in all its business activities, operations and transactions. This is achieved through the review and evaluation, before any product is offered to a customer, the product program, the contracts, agreements, fees, charges, policies, procedures, product manuals, product transaction structures, memorandum and articles of association, and any other matter which can potentially impact the Sharia compliance of the Bank or influence the perception of its Sharia compliance. Subsequently, the Sharia Officer submits his report, along with all the relevant documentation, to the SSB for their review and decision;

c) Sharia Compliance structuring unit is involved in implementation of new products / services to ensure full Sharia compliance under the relevant Fatawa. The function also assists the relevant staff in dealing with any Sharia non-compliance issues arising from the implementation stage;

d) Acting as the first line of defense in Sharia Department, this unit also shall be actively from time to time alerting both the Sharia Audit and Sharia Non-Compliance Risk Unit on any potential Sharia risk during the review on any sensitive transaction especially from Wholesale Banking and to a certain extent the Retail Banking as well.

Sharia Training Unit

a) The Sharia Training Unit prepares an annual training plan which is approved by Internal Sharia Reviewer and SSB;

b) The Sharia Training Unit participates in and arranges, in conjunction with the Human Resources Training Department training the Bank's employees by conducting internal and external trainings, and Sharia awareness on Islamic banking, in order to make sure that all Bank Nizwa staff are fully aware of the Islamic principles and rules, and to answer queries raised by staff and clients. The Sharia Training Unit also shares knowledge explaining principles of Fiqh al-Muamalat in general, and in particular the Fatawa, guidelines and instructions issued by the SSB about the products and services offered by the Bank;

c) The Sharia Training Unit also coordinates with Communications unit to develop and implement public awareness campaigns on Islamic banking finance to provide written articles and information for the media like television, newspapers, and internal newsletter. They also coordinate with Internal Sharia Reviewer to review Sharia content of marketing material, pamphlets, booklets, and any written material published by the Bank, documentation including, promotion and marketing materials, advertisements and other communications to general public, as per the guidelines provided by SSB and Sharia Executive committee.

Sharia Audit Unit

a) The Bank has appointed Abdulrahman Al Shaikh on 6 June 2012 as the Head of Internal Sharia Audit function reporting to the ISR. The Head of the function is appointed by the management subject to the approval of the SSB. The function is adequately resourced with proficient staff having the relevant qualification and experience;

Appendix A

b) Sharia Audit Unit is governed by the Internal Sharia Audit Charter prepared by the Sharia audit Unit and reviewed by the Internal Sharia Reviewer (ISR) , approved by the SSB;

c) Sharia audit officers have no executive authority or responsibility for the activities they audit;

d) Abdulrahman Al Shaikh, is a full time employee of the Bank and is responsible for examining and evaluating the extent of the Bank's compliance with the following:
   - Sharia principles;
   - The SSB's Fatawa, guidelines, pronouncements and instructions / recommendations;
   - Sharia related regulations, resolutions and directives issued by the CBO;
   - Sharia standards issued by AAOIFI; and
   - Sharia related policies and procedures of the Bank.

e) On an quarterly basis, Abdulrahman Al Shaikh expresses his opinion to the SSB on the extent of Sharia compliance of the Bank's operations through an actual audit of the business transactions;

f) Abdulrahman Al Shaikh reviews and examines the adequacy and effectiveness of the Bank's Sharia compliance system, covering all aspects of the Bank's business operations and activities;

g) Abdulrahman Al Shaikh has direct and regular communications with all levels of Management, SSB, Audit Committee, Internal Sharia Reviewer, and Independent External Sharia Auditor. No scope limitation and/or restriction of access to documents or reports, is placed on Internal Sharia Audit staff;

h) Abdulrahman Al Shaikh prepares periodic reports to the SSB, based on the audit plan, for consideration and appropriate action. A copy of such reports is also presented to the Audit Committee and the CEO;

i) Abdulrahman Al Shaikh follows up to ascertain that appropriate action is taken on his reported findings and recommended corrective actions. In addition, any other recommendations relating to Sharia matters made by the SSB, the Independent External Sharia Compliance Auditor and/or the CBO are also followed up;

j) In case of any difference of opinion between the Management and the Sharia Audit Unit on matters relating to Sharia interpretation, the issue is referred to and decided by the SSB;

k) The internal Sharia audit plan is in place which is approved by the SSB on an annual basis;

l) The internal Sharia audit planning process includes, at a minimum, the following:
   - Developing an Internal Sharia audit Program
   - Obtaining background information about the activities to be audited, such as locations, products/services, branches, divisions, etc.;
   - Establishing internal Sharia audit objectives and scope of work;
   - Obtaining SSB Fatawa, guidelines, instructions, prior year internal and Independent External Sharia Compliance Audit results, relevant correspondence including with the CBO;
   - Determining the resources necessary to perform internal Sharia audit;
   - Communicating with all individuals at the Bank who need to know about Internal Sharia Audit;
   - Performing, as appropriate, a survey to become familiar with activities, risks and controls to identify areas of Internal Sharia Audit emphasis, and to invite comments and suggestions; and
   - Establishing a risk-based Sharia audit plan

m) Internal Sharia Audit reports is submitted to the audit committee in the end of the reporting year.

Sharia Non-Compliance Risk Unit

a) Sharia Non-compliance Risk Unit coordinates with branches and business departments to receive regular MIS and confirmations from the business departments and branches relating to the Sharia compliance of key transactions and the actions taken to resolve any observations raised by the Sharia Compliance Unit on operations, products or procedures.

b) Sharia Non-Compliance Risk Unit identify, measure, monitor, control, and manage Sharia non-compliance risks in the Bank arising from failure to comply with Sharia rules and principles as set by Islamic Banking Regulatory Framework issued by Central Bank of Oman, Sharia standards issued by AAOIFI, and the Sharia rulings and guidelines issued by Sharia Supervisory Board of the Bank. Sharia Non-Compliance Risk Unit assist Internal Sharia Reviewer in identifying the Sharia non-compliance risk parameters for each department or function.

c) Sharia Non-Compliance Risk Unit measure quantitatively the volume of the identified parameters and detect any Sharia non-compliance events for each parameter.

d) Sharia Non-Compliance Risk Unit monitor the development of the Sharia non-compliance parameters during the year periodically.

e) Sharia Non-Compliance Risk Unit provide reasonable control measures to establish assurance on the soundness of operations which prevents violations of Sharia compliance measures and guidelines.

1.2.3 SSB quorum, minutes etc.

a) During the year ended 2021, period from January 1 to 31 December 2021, the SSB has conducted five meetings to review and approve key decisions relating to Sharia matters. Minutes of the meetings are prepared and provided to SSB members in the next meeting. The SSB members sign off the minutes to confirm the matters addressed therein. Decisions taken in SSB meetings are reflected in policies and procedures and operations of the Bank;

b) SSB meets at least on quarterly basis and each member of SSB attends at least three fourth of the meetings during a calendar year. Further, in addition to the regular meetings, the SSB Chairperson may convene SSB meetings as and when he deems it necessary;

Meeting number	Date of Meeting	SSB Attendees	SSB Absentees
1st Meeting of SSB	26-Jan-2021	1. Dr. Mohammed Al Gharbi 2. Dr. Aznan Bin Hasan 3. Sh. Ibrahim Bin Nasser AlSawwafy	Nil
2nd Meeting of SSB	11-Apr-2021	1. Dr. Mohammed Al Gharbi 2. Dr. Aznan Bin Hasan 3. Sh. Ibrahim Bin Nasser AlSawwafy	Nil
3rd Meeting of SSB	2-May-2021	1. Dr. Mohammed Al Gharbi 2. Dr. Aznan Bin Hasan 3. Sh. Ibrahim Bin Nasser AlSawwafy	Nil
4th Meeting of SSB	19-Aug-2021	1. Dr. Mohammed Al Gharbi 2. Dr. Aznan Bin Hasan 3. Sh. Ibrahim Bin Nasser AlSawwafy 4. Sh. Ali Al Jahdami	Nil
5th Meeting of SSB	27-Dec-2021	1. Dr. Mohammed Al Gharbi 2. Dr. Aznan Bin Hasan 3. Sh. Ibrahim Bin Nasser AlSawwafy 4. Sh. Ali Al Jahdami	Nil

c) All meeting is chaired by the SSB Chairperson and in his absence, by the vice-Chairperson;

d) The quorum of SSB meetings is majority of its members. SSB decisions are made through majority vote of SSB members;

e) The agenda of the SSB meetings along with sufficient details is sent to the SSB members well in advance, enabling them to come prepared in the meetings. The specific timelines for submission of the agenda is set by the SSB itself;

f) All the SSB approvals taken through circulation are made part of the minutes of the next SSB meeting;

g) The minutes of meetings are prepared and provided to the SSB members. The SSB ensures that the minutes of its meetings have necessary details of all the decisions made and / or Fatawa issued along with the detailed rationale (Fiqhi or other) and difference of opinion or dissenting note, if any. Further, the minutes are signed by all the SSB members who attended the meeting to confirm the matters addressed therein, no later than in the next meeting; and

h) The decisions taken in SSB meetings are reflected, as appropriate, in policies and procedures and day to day operations of the Bank as applicable

Appendix A

i) A Sharia Ex-com meeting is held on a monthly basis and during the period from January 1 to 31 December 2021, the Sharia Ex-com has conducted 6 meetings to review and approve key decisions relating to Sharia matters.

1.3 Control environment

We are committed to maintaining a control conscious environment throughout the Bank in order to ensure that the operations of the Bank are conducted in a Sharia compliant and controlled manner. This is achieved through the following policies and procedures:

a) A management and organization structure is documented and approved by HRC committee in July 2020 and maintained by the Human Resource Department;

b) An appropriate Sharia governance framework in compliance with CBO regulations, resolutions and directives, AAOIFI governance standards and guidelines and directives issued by SSB is maintained;

c) Key duties and functions are segregated. An independent executive is designated with the responsibility for Sharia Compliance Structuring; another independent executive is designated with the responsibility for internal Sharia audit;

d) Policies and procedures manuals and documentation in relation to Sharia products, operations, compliance, trainings, and internal controls are maintained and available to all relevant staff;

e) Business monitoring and risk assessment are in place to obtain reasonable assurance that the business is operating in compliance with Sharia, regulatory and internal control requirements;

f) Sharia compliance and audit reports are submitted to the SSB in line with the agreed annual plan;

g) Procedures are in place on delegation of authority from senior Management;

h) New business initiatives and products are fully considered and approved by the Management taking into account the relevant risks and benefits, Sharia compliance and internal control requirements; and

i) Documents are properly controlled and retained for five years for audit Reports and working papers but Fatwas and SSB related Issues are permanently retained. Other Documents (inter office memos, correspondence are retained for three years) in accordance with established policies and procedures and in line with CBO's regulations, resolutions and directives.

1.4 Transaction level controls

a) Only products and services that have been approved by the SSB are offered to customers. For this purpose, a list of approved products is circulated to the Bank's employees and included in the Bank's procedure manual. Employees are required to refer to the list at the time of initiating transactions and tick the appropriate product on the respective application form;

b) Documents provided by customers are verified to ensure their authenticity. Individuals verifying such documents are required to stamp, initial and date the documents to evidence verification;

c) Only standard templates approved by the SSB are used for initiating and executing transactions;

d) Daily transactions, exceeding a stipulated monetary limit are sent to the Committee for review and approval;

e) The income statement and sources of income including contracts made with counterparties are periodically reviewed by the ISR, SCSU and SAU depending on the nature of the transaction. The review is conducted to:

   i. Ensure that the Bank is operating within the parameters defined and approved by the Sharia Supervisory Board; and

   ii. Determine whether any portion of income generated is non-Sharia compliant and perform corrective actions (such as setting aside such income for charity purposes);

f) All agreements/contracts/forms are reviewed by the ISR, SCSU prior to execution. This may include templates to be used for employee contracts, rental agreements, and account opening forms.

1.5 Product specific controls

Before a product is launched to the general public, the Bank develops detailed product programs including but not limited to process flows, product features, product accounting treatment, IT system interaction, underlying contract templates and advertising material, which are approved by the SSB and other relevant authorities. Controls relating to the products currently being offered by the Bank are as follows:

Appendix A

Murabaha:

a) The Bank has developed a Murabaha contract template which is approved by the Sharia Supervisory Board and is used for Murabaha transactions;

b) Staff executing Murabaha transactions are required to enter the following information before a transaction can be processed:

   i. Purchase price of the underlying asset and associated costs;

   ii. Sales price of the asset; and

   iii. Bank's profit margin.

c) Documents that confirm legal title and ownership of underlying asset in the name of the Bank are obtained and maintained;

d) A checklist containing the minimum requirements to be complied with for Murabaha transactions is available to the Bank's employees. The checklist is approved by the SSB;

Mudaraba:

a) A Mudaraba contract template approved by the SSB is used for Mudaraba transactions;

b) A checklist containing the minimum requirements to be complied with for Mudaraba transactions is available to the Bank's employees. The checklist is approved by the SSB;

c) Mudaraba calculations for profit and loss sharing are reviewed and approved by the Internal Sharia Reviewer; and

d) Where the standard Mudaraba contract template is not used, the amended contract is reviewed and approved by the Internal Sharia Reviewer or Internal Sharia Reviewer Compliance Structuring Unit to confirm inclusion of appropriate clauses necessary to ensure the contract is Sharia compliant.

Diminishing Musharaka (DM):

a) A Diminishing Musharaka contract template approved by the SSB is used for DM transactions;

b) Where the standard DM contract template is not used, the amended contract is reviewed and approved by the Internal Sharia Reviewer or Internal Sharia Reviewer Compliance Structuring Unit to confirm inclusion of appropriate clauses necessary for a Sharia compliant transaction;

c) Diminishing Musharakah (DM) can be created only in tangible assets. DM will be limited to specified assets and not to whole enterprise.

Ijarah:

a) Ijarah contract templates for various asset classes, such as ready house or land are approved by the SSB;

b) Where standard Ijarah contract templates are not used, amended contracts are reviewed and approved by Internal Sharia Reviewer or Internal Sharia Reviewer Compliance Structuring Unit to confirm inclusion of appropriate clauses necessary for the contract to be Sharia compliant; and

c) Documents that confirm legal title and ownership of underlying asset in the name of the Bank are obtained and maintained on file.

Wakala Bil Istithmar (WBI):

a) WBI agreement templates for both side (Bank Nizwa as Wakil (Agent) or Muwakil (Fund Owner) are approved by the SSB;

b) Where standard WBI contract templates are not used, amended contracts are reviewed and approved by Internal Sharia Reviewer or Internal Sharia Reviewer Compliance Structuring Unit before transactions being executed, and reviewed by the Sharia audit unit after transaction being done to confirm inclusion of appropriate clauses necessary for the contract to be Sharia compliant;

c) Wakala activities reviewed by Sharia Compliance Structuring Unit, and profit distribution mechanism are reviewed by Sharia audit manager and Internal Sharia Reviewer to make sure that the Wakla investment Agency (Wakala bil Istithmar) activities and profit calculation and distribution are as per SSB rules.

Appendix A

Unrestricted Investment Accounts (URIA):

a) Mudaraba deposits is invested in the Bank's general mudaraba pool where the amount will be used / invested in Sukuk investments or for the Bank to provide financing via many contracts such as Ijara, Wakala Bil Istithmar, Diminishing Musharaka, Murabaha and Istisna' for which all the contracts mentioned are duly approved by the SSB; and

b) Quarterly and annual profit distribution and loss calculations are reviewed by the Internal Sharia Reviewer before being disclosed to investors. On a monthly basis the profit distribution calculation is reviewed by the Head of Sharia Audit / Sharia Non-Compliance Risk Unit Manager to make sure that it is with the Profit Distribution Policy approved by SSB.

1.6 Investment controls

a) Investments are executed only after being approved by the Sharia Supervisory Board;

b) The SSB reviews and approves investment acquisitions and exits to ensure compliance with Sharia principles. Matters subject to review and approval may include:
   i. Preliminary deal analysis;
   ii. Deal structuring and financing;
   iii. Legal documentation;
   iv. Private Placement Memorandum; and
   v. Deal exit strategy (should be reviewed and approved by SSB members).

c) For each class/type of investment, the SSB issues a certificate of approval which is signed off by the members of the SSB. The certificate evidences the review and approval by the SSB. It also indicates the SSB's satisfaction that the investment structure and associated documentation are in compliance with Sharia principles;

d) Investments are reviewed by the Internal Sharia Reviewer / Head of Sharia Audit Unit post acquisition to ensure they adhere to investment structure approved by the SSB; and

e) Internal Sharia Reviewer / Head of Sharia Audit Unit reviews short term investments (such as Wakalah and Mudaraba) to ensure these are made in line with the Bank's SSB approved Sharia principles.

1.7 Hiring process, employee training and awareness

a) The senior Management of the Bank including the CEO has adequate knowledge, qualification and experience in Islamic banking and finance;

b) Hiring processes are well defined. Required competence in Sharia matters is defined in the hiring criteria, in line with IBRF requirements;

c) The Internal Sharia Reviewer oversees the Sharia training plans and schedule for the Bank. He spends a significant percentage of his time, on an annual basis, in training the Management and the staff of the Bank.

d) The Bank has developed a comprehensive training plan for the year 2021 identifying the areas where training is required and ensuring relevant subjects are covered;

e) A database containing Fatwas and Sharia guidelines issued by the Banks' SSB is in place that is accessible to key staff members who are engaged in the Bank's operations. The database is kept up to date with new Fatwas issued from time to time.

f) A log of time spent on training is maintained by the HR department of the Bank;

g) Sessions are conducted for employees to keep them up to date on:
   - New products and services approved by the Bank; and
   - Amendments to existing products and services.

h) Annual training budget is in place for employees;

1.8 Other controls

a) The SSB reviews and approves the Bank's annual Zakah calculations;

b) The Internal Sharia Reviewer reviews the Bank's HR policies and procedures, code of conduct/ethics to ensure they are in line with SSB guidelines; and

c) Tools for obtaining customer feedback and complaints are implemented (suggestion drop box, email, phone, etc.). The Head of Sharia reviews customer feedback/complaints received to ensure matters relating to Sharia compliance are adequately addressed.

Appendix B

1. Control Objectives

The Bank's control objectives as approved by the Bank's SSB are provided below:

1.1 Overall control objective:

Ensure that the Bank's activities are conducted in a Sharia compliant manner. Achievement of this objective requires compliance with Sharia guidelines/directives issued by the Bank's SSB (referred to as the Bank's Sharia principles) and other relevant authorities.

1.2 Specific control objectives:

Ensuring that:

a) The Bank's transactions, contracts and earnings are in accordance with the Bank's Sharia principles;

b) Employees are appropriately and adequately trained to possess knowledge on Sharia products/services offered by the Bank;

c) Revenues, collections and income that do not comply with the Bank's Sharia principles are adequately segregated and appropriately treated;

d) Allocation of profit and charging of losses to investment accounts conform to the basis approved by the SSB; and

e) Management does not override or compromise the Bank's Sharia principles to enhance the Bank's performance.

Appendix C

Management's statement of compliance with the Sharia principles and rules

1. Introduction

This statement of compliance is being issued by the management of Bank Nizwa SAOG with regards to the state of compliance of the Islamic Bank's financial arrangements, contracts, and transactions with Sharia principles and rules for the year ended 31 December 2021.

1.1 Acknowledgement of management's responsibility for compliance with Sharia principles and rules

We, as management of the Islamic Bank, are responsible to ensure that the financial arrangements, contracts and transactions having Sharia implications, entered into by the Islamic Bank with its customers, other financial institutions and stakeholders and related policies and procedures are, in substance and in their legal form, in compliance with the requirements of Sharia principles and rules in line with the applicable criteria as provided below.

1.2 Applicable criteria

The criteria for the compliance with Sharia principles and rules comprises the following, in the sequence provided below:

a) The Sharia standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);

b) The regulations stipulated by the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF);

c) The rulings of the CBO's High Sharia Supervisory Authority of the Sultanate of Oman;

d) Requirements of the applicable Financial Accounting Standards as issued by AAOIFI insofar as these entail Sharia related requirements; and

e) Approvals and rulings given by the Sharia Supervisory Board of Bank Nizwa SAOG.

1.3 Confirmations and representations

We confirm that during, and with regards to the year ended 31 December 2021:

a) The Islamic Bank has developed and implemented a sound and robust system of corporate and Sharia governance, in line with the IBRF and AAOIFI governance standards and other related requirements and best practices including regulatory requirements;

b) The management has developed and maintained internal control including internal control necessary to ensure compliance with Sharia principles and rules and to prevent any material non-compliance thereof. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of controls. We confirm that the Islamic Bank's system of internal control is sound in design and has been effectively implemented and monitored, as well as updated and improved for identified non-compliances, if any;

c) The financial statements for the year ended 31 December 2021 reflect fairly the Islamic finance transactions and Sharia related matters;

d) The management complied with all aspects of contractual agreements that would have had a material effect on the Islamic Bank's compliance with Sharia principles and rules, and in the event of a material non-compliance thereof, have reported the same in the respective sections of this statement below;

e) We are not aware of any transactions, accounts or material agreements or arrangements with Sharia implications which have not been fairly described, or properly recorded in the financial and accounting records underlying the financial statements;

f) We confirm that there have been no frauds or irregularities involving management or employees who have significant roles in the accounting and system of internal control or any irregularities involving others that could have a material effect on the financial statements or compliance with Sharia principles and rules;

Appendix C

g) The management has provided fair and transparent information and access to records to the external Sharia auditors, internal Sharia auditors, Sharia compliance officials and the members of Sharia Supervisory Board for all matters that may have a Sharia implication; and

h) The management has developed a code of conduct for the Islamic Bank and code(s) of ethics for employees, directors and other officials of the Islamic Bank in line with the Sharia requirements and we confirm that all employees, directors and other officials have provided confirmation of compliance with the respective code(s) of ethics and we, the management, confirm that the Islamic Bank has complied with the Islamic Bank's code of conduct.

1.4 Unresolved issues and non-compliance of Sharia principles and rules

We are not aware of any issues with regard to the Sharia compliance of the Islamic Bank which remained unresolved till the date of this Statement or are established as a material non-compliance with Sharia principles and rules having an impact on the period under coverage of this Statement.

All immaterial non-compliances with Sharia principles and rules have been satisfactorily resolved and matters have been concluded in light of the approvals and guidelines of the Sharia Supervisory Board.

1.5 Charity

We confirm that any amounts determined to be payable / transferable to charity fund have been transferred to the charity fund within reasonable time of identification and as of the date of the financial statements, there is no amount of charity pending transfer to the charity fund. We further confirm that all amounts allocated to charity fund were spent in accordance with the approved charity policy, as approved by the Sharia Supervisory Board, and that there is no unreasonable delay in spending of such charity amount.

1.6 Explanations on Sharia Supervisory Board reporting matters

The Sharia Supervisory Board has conducted its review on the Islamic Bank's compliance with Sharia rules and principles which included examining, on a test basis, of each type of transaction, the relevant documentation and procedures adopted by Bank Nizwa SAOG. The draft Sharia Supervisory Board report for the year ended 31 December 2021 does not have any Sharia non-compliance matters.

1.7 Statement of compliance

Based on our above made representations and confirmations, we conclude and confirm to the best of our knowledge and belief that in our opinion the Islamic Bank's financial arrangements, contracts and transactions for the year ended 31 December 2021 are in compliance with the Sharia principles and rules, in all material respects, in line with the criteria for compliance with Sharia principles and rules as described above, and, where applicable, have been reflected adequately in the financial statements of the Islamic Bank as of that date.

For all and on behalf of Bank Nizwa SAOG

Chief Executive Officer	Internal Sharia Reviewer

Sharia Supervisory Board Report

بِسْمِ اللهِ الرَّحْمٰنِ الرَّحِيْمِ

Praise is to Allah Almighty, and prayers on Prophet Muhammad and his family and followers;

To the Shareholders of Bank Nizwa,

Assalam 'Alaykum Wa Rahmatul-Allah,

In compliance with the letter of appointment, we are required to submit the following report for the operations of Bank Nizwa during the year 2021 for the period from 01/01/2021 to 31/12/2021.

We have reviewed the applied principles and contracts relating to the products and services as well as transactions and applications introduced by Bank Nizwa during the mentioned period. We have also conducted our required review to form an opinion as to whether Bank Nizwa has complied with Sharia rules and principles, and also with specific Sharia rulings, resolutions and guidelines issued by the Sharia Supervisory Board.

We conducted our review directly, or through the Sharia Compliance Department, which included examining, on sample basis of each type of transactions, the relevant documentation and procedures adopted by Bank Nizwa. We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to establish reasonable assurance that Bank Nizwa has not violated Islamic Sharia rules and principles.

Our responsibility is restricted to provide an independent opinion, based on our review of the operations of Bank Nizwa, and report to you. The management at Bank Nizwa is responsible to ensure that Bank Nizwa conducts its business in accordance with Islamic Sharia rules and principles.

Based on the above, the Sharia Supervisory Board discloses the following opinion:

1) The contracts, transactions and operations concluded by Bank Nizwa during the year 2021 for the period from 01/01/2021 to 31/12/2021, which we have reviewed, are in compliance with Islamic Sharia rules and principles;
2) The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Sharia Supervisory Board and in accordance with Islamic Sharia rules and principles;
3) All earnings which have been realized from sources or by means not in compliance to Islamic Sharia rules have been disbursed to the charity account under the supervision and guidelines of the Sharia Supervisory Board; and
4) We have reviewed the Zakat account and calculated the Zakat amount for each share. Also, the disbursement of Zakat is the responsibility of Shareholders and not the responsibility of the Bank.

We pray to Allah the Almighty to grant us all, success and obedience to Sharia.

Sheikh Dr. Mohammed bin Rashid Al-Gharbi	**Sheikh Dr. Aznan bin Hassan**	**Sheikh Dr. Ibrahim bin Nasser Al-Sawafi**
Head of the Shariah Board	Vice Chairman of the Shariah Board	Sharia Board Member

Place and Date: Muscat,23 of Jumada Al thanyeah, 1443Corresponding to 26 January 2022.

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Independent auditors' report

To the Shareholders of Bank Nizwa SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Bank Nizwa SAOG (the "Bank"), which comprise the statement of financial position as at 31 December 2021, the statements of income, changes in equity, cash flows, and sources and uses of charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and results of its operations, changes in owners' equity, its cash flows, and sources and uses of charity fund for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman (the "CBO").

In our opinion, the Bank has also complied with the Islamic Shariah Principles and Rules as determined by the Shariah Supervisory Board of the Bank during the year ended 31 December 2021.

Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and this 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

CR No. 1358131

Tax Card No. 8063052

Impairment of financial assets subject to credit risk	
See note 13, 39 and 40 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The Bank's net financial assets subject to credit risk, both on and off-balance sheet, were RO 1.69 billion as at 31 December 2021 (2020: 1.45 billion), hence a material portion of the statement of financial position. Furthermore, the total impairment recognized by the Bank on these financial assets amounted to RO 7.1 million during the year ended 31 December 2021 (2020: 6.7 million) which represents 57% of the net profit of the Bank hence a material portion of the statement of income. We considered this as a key audit matter, as the determination of ECL involves significant management judgement and this has a material impact on the financial statements of the Bank. Furthermore, the COVID-19 pandemic continues to pose challenges to business, thus increasing the levels of judgement and uncertainty needed to determine the ECL under the requirements of FAS 30 – Impairment, credit losses and onerous commitments ("FAS 30"). The key areas of judgement include: 1) Categorisation of financing into Stages 1, 2 and 3 based on the identification of: a) exposures with a significant increase in credit risk ("SICR") since their origination; and b) individually impaired / defaulted exposures. The Bank has applied additional judgements to identify and estimate the likelihood of borrowers that might have experienced SICR notwithstanding the government support programs based on the relevant CBO circulars that resulted in deferrals of instalments to certain counterparties. The deferrals were not deemed to have triggered SICR by themselves in isolation of other factors. 2) Assumptions used in the ECL model 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	– We obtained and updated our understanding of management's assessment of ECL allowance against financing assets, including the Bank's internal rating model, accounting policy and the model methodology, considering key changes made during the year. – We compared the Bank's accounting policy and ECL methodology with the requirements of FAS 30. – We assessed the design and implementation, and tested the operating effectiveness of the key controls (including IT general and application controls) over: • the IT systems and applications supporting the ECL model; • the modelling process, including governance over the monitoring of the model including approval of key assumptions and management overlays. • the classification of financing into Stages 1, 2 and 3 and timely identification of SICR and the determination of default / individually impaired exposures; and • the data inputs into the ECL model. – For a sample of customers, we assessed: • the internal ratings determined by management based on the Bank's internal rating model, and considered these assigned ratings in the light of external market conditions and available industry information, in particular with reference to the continued impacts of the COVID-19 pandemic, and also assessed that these were consistent with the ratings used as inputs in the ECL model; • management's computations for ECL; and • for selected financing, we assessed management's assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any.

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Impairment of financial assets subject to credit risk	
See note 13, 39 and 40 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
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 have been 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.	– We assessed the appropriateness of the Bank's criteria for the determination of SICR and default, the identification of individually impaired exposures; and the resultant staging classifications. Furthermore, for a sample of exposures, we assessed the appropriateness of the corresponding staging classification of financing facilities with a specific focus on customers operating in sectors most affected by the COVID-19 pandemic, particularly those that continue to be eligible for deferral of instalments under government support programs based on the relevant CBO circulars setting out the definition criteria as at 31 December 2021. – We assessed the governance process established by the Bank and the qualitative factors considered by the Bank 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 Bank in the ECL model including forward looking assumptions in cognisance of the uncertainty and volatility in economic scenarios due to the 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. – We assessed the adequacy of disclosures in the financial statements.

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Other Information

The Board of Directors is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Board of Directors' report and other sections which forms part of the annual report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the Bank's undertaking to operate in accordance with Islamic Sharia Rules and Principles as determined by the Bank's Shariah Supervisory Board.

The Board of Directors is also responsible for the preparation and fair presentation of the financial statements in accordance with FAS as modified by CBO and their presentation in compliance with the relevant requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ASIFIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 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 Bank to cease to continue as a going concern.

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

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

We also provide the Board of Directors 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 the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 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.

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13 March 2022

Ravikanth Petluri

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KPMG LLC
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CR.No: 1358131

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Tax Card No. 8063052

STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Notes	2021	2020
		RO'000	RO'000
			(restated)
Assets			
Cash and balances with Central Bank of Oman	4	**90,028**	67,943
Due from banks and financial institutions	5	**5,851**	12,996
Inter-bank Wakala investments	6	**26,841**	-
Sales receivables and other receivables – net	7	**232,724**	209,106
Investment securities	8	**128,324**	102,019
Musharaka Financing – net	9	**260,170**	176,539
Investment in real estate	10	**14,175**	14,175
Ijara Muntahia Bittamleek – net	11	**291,610**	303,905
Wakala Bil Istethmar – net	12	**339,422**	309,078
Property and equipment	14	**3,258**	1,780
Intangible assets	15	**3,327**	2,264
Other assets	16	**9,093**	6,454
Total assets		**1,404,823**	1,206,259
Liabilities, equity of unrestricted investment accountholders and owners' equity			
Liabilities			
Customers' accounts	17	**213,388**	205,002
Other liabilities	18	**34,638**	30,177
Total liabilities		**248,026**	235,179
Equity of unrestricted investment accountholders	19	**916,958**	811,392
Owners' equity			
Paid-up capital	20	**220,011**	150,000
Share premium	21	**2,091**	2,091
Investment fair value reserve	22.1	**1,655**	(7)
Legal reserve	22.2	**4,519**	3,266
Impairment reserve		**150**	150
Retained earnings		**11,413**	4,188
Total owners' equity		**239,839**	159,688
Total liabilities, equity of unrestricted investment accountholders and owners' equity		**1,404,823**	1,206,259
Net assets per share (RO)	34	**0.107**	0.106
Contingent liabilities and commitments	24	**395,989**	336,586

The financial statements were approved by the Board of Directors on 11 March 2022 and signed on their behalf by:

Khalid Bin Abdullah Al Khalili	**Musabah bin Saif Al Mutairy**	**Khalid Al Kayed**
Chairman	Vice Chairman	Chief Executive Officer

The attached notes 1 to 41 form part of these financial statements.

STATEMENT OF INCOME

For the year ended 31 December 2021

	Notes	2021 RO'000	2020 RO'000 (restated)
Sales receivables and other receivables revenue	25	**11,826**	11,849
Ijara Muntahia Bittamleek	26	**15,454**	16,257
Profit from Wakala Bil Istethmar		**20,222**	14,396
Profit from Musharaka Financing		**12,422**	8,346
Profit from inter-bank Wakala investments	27	**111**	144
Profit from investment securities	28	**4,692**	3,760
Income from jointly financed investments and receivables		**64,727**	54,752
Return on unrestricted investment accountholders before the Bank's share as Mudarib	29	**(36,236)**	(30,803)
Bank's share as Mudarib		**6,998**	7,434
Return on unrestricted investment accountholders		**(29,238)**	(23,369)
Bank's share in income as Mudarib and Rabul Maal		**35,489**	31,383
Bank's income from its own investments and financing	30	**1,695**	1,682
Revenue from banking services	31	**6,244**	5,514
Foreign exchange gain – net		**919**	675
Total revenues		**44,347**	39,254
Operating expenses	32	**(20,938)**	(18,725)
Depreciation and amortization	14&15	**(1,936)**	(931)
Total expenses		**(22,874)**	(19,656)
Profit before provisions and tax		**21,473**	19,598
Impairment losses - net	13	**(7,130)**	(6,700)
Profit before tax		**14,343**	12,898
Income tax	33	**(1,817)**	(1,831)
Profit for the year		**12,526**	11,067
Earnings per share basic and diluted – (RO)	35	**0.007**	0.007

The attached notes 1 to 41 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021	2020
		RO'000	RO'000
			(Restated)
Cash flows from operating activities			
Profit before tax		14,343	12,898
Adjustments for:			
Depreciation and amortization	14 &15	1,936	931
Impairment losses	13	7,130	6,700
Other provision		-	(40)
Investment risk reserve		(266)	(225)
Gain on disposal of property and equipment		(2)	-
Cash flows from operating activities before changes in operating assets and liabilities		23,141	20,264
Changes in operating assets and liabilities:			
(Increase)/Decrease in sales receivables and other receivables		(25,643)	749
Decrease in Ijara Muntahia Bittamleek assets		12,064	13,720
Increase in Musharaka financing		(86,720)	(61,023)
(Increase)/decrease in other assets		(2,694)	1,631
Increase in customers' accounts		8,386	55,759
Increase in other liabilities		4,472	5,695
Cash (used in) / generated from operations		(66,994)	36,795
Tax paid		(1,584)	-
Net cash (used in) / generated from operating activities		(68,578)	36,795
Investing activities			
Movement in investment securities		(26,751)	(32,737)
Movement in Wakala Bil Istethmar		(31,592)	(128,749)
Purchase of intangibles assets	15	(1,459)	(270)
Purchase of property and equipment	14	(3,018)	(463)
Proceeds from disposal of property and equipment		2	-
Net cash flows used in investing activities		(62,818)	(162,219)
Financing activities			
Increase in unrestricted investment accountholders		172,285	76,963
Dividends paid		(1,875)	-
Board remunerations		(126)	-
Issuance of capital through right issues		70,011	-
Issuance cost of capital through right issues		(118)	-
Net cash flows generated from financing activities		240,177	76,963
Increase/(decrease) in cash and cash equivalents		108,781	(48,461)
Cash and cash equivalents at the beginning of the year		13,647	62,108
Cash and cash equivalents at the end of the year		122,428	13,647
Cash and balances with CBO	4	90,028	67,943
Capital deposit with CBO	4	(500)	(500)
Due from banks and financial institutions	5	5,906	13,012
Inter-bank Wakala investment	6	27,000	-
Inter-bank Wakala less than three months	19	(6)	(66,808)
Cash and cash equivalent for the purpose of cash flow statement		122,428	13,647

The attached notes 1 to 41 form part of these financial statements.

STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2021

	Paid-up capital	Share premium	Investment fair value reserve	Legal reserves	Impairment reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2021	150,000	2,091	(7)	3,266	150	4,188	159,688
Impact of adopting FAS 33 at 1 January (note 3.34.1-d)	-	-	1,595	-	-	(1,929)	(334)
Restated balance at 1 January 2021	150,000	2,091	1,588	3,266	150	2,259	159,354
Investment fair value reserve (net of tax)	-	-	67	-	-	-	67
Profit for the year	-	-	-	-	-	12,526	12,526
Transfer to legal reserve	-	-	-	1,253	-	(1,253)	-
Dividend paid	-	-	-	-	-	(1,875)	(1,875)
Issuance of shares through rights issues	70,011	-	-	-	-	-	70,011
Issuance cost on right issues and other expenses	-	-	-	-	-	(244)	(244)
Balance as at 31 December 2021	220,011	2,091	1,655	4,519	150	11,413	239,839

	Paid-up capital	Share premium	Investment fair value reserve	Legal reserves	Impairment reserve	Retained earnings / (Accumulated losses)	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2020	150,000	2,091	(721)	2,159	150	(5,772)	147,907
Investment fair value reserve (net of tax)	-	-	714	-	-	-	714
Profit for the year	-	-	-	-	-	11,067	11,067
Transfer to legal reserve	-	-	-	1,107	-	(1,107)	-
Balance as at 31 December 2020	150,000	2,091	(7)	3,266	150	4,188	159,688

The attached notes 1 to 41 form part of these financial statements.

STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2021

	2021	2020
	RO'000	RO'000
Sources of charity fund		
Balance as at 1 January	-	-
Non-Islamic income for the year	21	38
Total source	21	38
Uses of charity fund		
Use of charity fund *	21	38
Undistributed charity fund as at 31 December	-	-

* The charity fund is utilised by making contribution to organizations which are registered with the Ministry of Awqaf and Religious affairs, namely Zakat Seeb Committee, Oman Charitable Organization and Oman Association of the Care of Holy Quran.

The attached notes 1 to 41 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Nizwa SAOG ("the Bank") was registered in the Sultanate of Oman as a public joint stock company under registration number 1152878 on 15 August 2012. The Bank's shares are listed on the Muscat Securities Market "MSM" and its principal place of business is in Muscat, Sultanate of Oman.

The Bank commenced its operations on 23 December 2012 and currently operates through fifteen branches (2020: fifteen branches) in the Sultanate under the banking license issued by the Central Bank of Oman on 19 December 2012.

The principal activities of the Bank are opening current, saving and investment accounts, providing Murabaha finance, Ijara financing and other Sharia compliant forms of financing as well as managing investors' money on the basis of Mudaraba in exchange for a profit share or agency in exchange for a fee, and excess profit as incentive providing commercial banking services and other investment activities.

The Bank's activities are regulated by the Central Bank of Oman ("CBO") and supervised by a Sharia Supervisory Board ("SSB") whose role is defined in Bank's Memorandum and Articles of Association.

At 31 December 2021, the Bank had 415 employees (2020: 397 employees) and its address is: P O Box 1423, Postal Code 133, Muscat, Sultanate of Oman.

The Bank has received a letter from Sohar International SAOG on 23 November 2021 on their intention to merge with the Bank. The Bank is currently initiating the due diligence process after receiving CBO approval.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

Statement of restricted investment accountholders, statement of Qard fund and Zakat are not presented as these are not applicable.

2.2 Basis of measurement

The financial statements are prepared on historical cost basis, except for the measurement of investments carried at fair value through equity and investment in real estate.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

The preparation of financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors including expectation of future events that are believed by the Bank to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The significant use of judgments and estimates are as follows:

2.4.1 Expected Credit Loss on financial assets

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

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

2. BASIS OF PREPARATION *(continued)*

2.4 Use of estimates and judgements *(continued)*

2.4.1 Expected Credit Loss on financial assets (continued)

- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation.

Inputs, assumptions and techniques used for ECL calculation

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

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

The 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); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2.4.2 Valuation of investment property

The Bank follows international standards for valuation for non-financial asset such as sales comparison, discounted future cash flows, internal model-based valuation to arrive at a fair value. The valuation of asset is reviewed on regular basis to make necessary adjustment where required. At a minimum valuation is done once a year either by engaging an external agency or through an independent internal unit.

3 SIGNIFICANT ACCOUNTING POLICIES

There financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2020 except for the adoption of new standards as set out in note 3.33.1.

3.1 Cash and cash equivalents

For the purposes of the statement of cash flows cash and cash equivalents comprise cash in hand, non-restricted balance with the CBO, amounts due to / from banks and financial institutions, inter-bank Wakala, with remaining maturity of three months. Cash and cash equivalents are carried at amortised cost at the reporting date.

3.2 Sales receivables and other receivables

- Sales receivables consist mainly of sales transaction agreements (Murabaha) stated net of deferred profits and provision for impairment. The Bank considers the promise made in the Murabaha to the purchase orderer as obligatory.
- Istisna receivables is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. Istisna receivables are stated net of deferred profits and provision for impairment.
- Ijara income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Ijara Muntahia Bittamleek and Ijara income receivables

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Leased assets are depreciated over the life of the lease in a systematic manner.

3.4 Wakala Bil Istethmar

Wakala Bil Istithmar is used as a short to medium and long-term working capital financing tool. The Bank, in its capacity as the Principal (hereinafter referred to as the "Muwakkil") appoints the Client as its Agent (hereinafter referred to as the "Wakil") to manage the investment amount (hereinafter referred to as the "Investment Amount") in Sharia-compliant activities that may be entered into, as agreed, by the Wakil on behalf of the Muwakkil. The prime objective of making such an investment is to generate profit from the business activities and get the Investment Amount paid back along with the realized profit amount, if any, on the investment maturity date compared to the anticipated profit rate Investments.

3.5 Musharaka financing

Diminishing Musharaka is a contract, based on Shirkat-ul-Mulk, between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to customer (at carrying value).It is a contract in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

3.6 Investments

Equity-type instruments at fair value through profit and loss

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

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

Equity-type instruments at fair value through equity

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

Debt-type instruments at fair value through equity

These include investments which have fixed or determinable payments of profit and capital and are held within a business model whose objective is achieved by both collecting expected cashflows and selling the investments. These are initially recognised at fair value, being the value of the consideration given including transaction costs directly attributable to the acquisition.

Debt-type instruments at amortised cost

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments

Policy from 1 January 2021

a) *Classification of financial instruments*

Financial assets consist of balances with Central Bank of Oman, due from banks and financial institutions, financial assets at amortised cost, financial assets through equity, sales receivables and other receivables, Musharaka Financing, Inter-bank Wakala Investments, Ijarah Muntahia Bittamleek, Diminishing Musharaka, and other receivables.

Financial liabilities contracts consist of customers' accounts and other payables.

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

b) *Measurement of financial Instruments*

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

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

c) *Trade and settlement date accounting*

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

d) *Derecognition*

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

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

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

e) *Impairment*

Overview of the ECL principles

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

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

Both LTECLs and 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 period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

Policy from 1 January 2021 *(continued)*

e) Impairment *(continued)*

Overview of the ECL principles *(continued)*

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

Stage 1: Twelve months ECL

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

Stage 2: LTECL – not credit impaired

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

Stage 3: LTECL – credit impaired

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

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

The calculation of ECLs

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

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

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The Bank has applied a LGD of 0% on Government Sukuk issued by Government of Oman which are classified as debt investments under amortised cost.

Credit-impaired financial assets

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

***Policy from 1 January 2021** (continued)*

***e) Impairment** (continued)*

***Credit-impaired financial assets** (continued)*

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

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

a) The market's assessment of creditworthiness as reflected in the Sukuk yields.

b) The rating agencies' assessments of creditworthiness.

c) The country's ability to access the capital markets for new debt issuance.

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

e) The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Write-offs

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

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

Allowance for credit losses are presented in the statement of financial position as follows:

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

Calculation of expected credit loss (ECL)

Inputs, assumptions and techniques used for ECL calculation

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

Assessment of Significant Increase in Credit Risk

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

Policy from 1 January 2021 *(continued)*

e) Impairment *(continued)*

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

a. The remaining Lifetime PD at the reporting date has increased as result of downgrading of internal rating by two notches;
b. Inadequate or unreliable financial and other information such as unavailability of audited financial statement
c. Non-cooperation by the counterparty in matter pertaining to documentation
d. Counterparty is the subject of litigation by third parties that may have a significant impact on his financial position
e. Frequent changes in senior management
f. Intra-group transfer of funds without underlying transactions
g. Deferment/delay in the date for commencement of commercial operations by more than one year
h. Modification of terms resulting in concessions granted to counterparty including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, bank is guided by the extant instructions of CBO in regard to treating an account as restructured.
i. A fall of 25 percent or more in the turnover or in the EBIT as compared to previous year
j. Erosion in net-worth by more than 20 percent as compared to the previous year and coupled with an increase in leverage.
k. A fall in the debt service ratio below 1.

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

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

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

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

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

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

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

Definition of default

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

Expected life

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

Policy up to 31 December 2020

Classification of financial assets

As per IFRS 9, the Bank classifies its financial assets in the following measurement categories:

a) Fair value through other comprehensive income (FVOCI);

b) Amortised cost; or

c) Fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions:

a) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit.

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

a) The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit.

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

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

Classification of Financial liabilities

Financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs and are measured at amortised cost using the effective profit rate method.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit paid over the relevant period. The effective profit rate is the rate exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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:

a) The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profits, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

b) How the performance of the portfolio is evaluated and reported to the 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;

c) 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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

Policy up to 31 December 2020 *(continued)*

Classification of financial assets *(continued)*

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and profit, 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:

a) contingent events that would change the amount and timing of cash flows;

b) leverage features;

c) prepayment and extension terms;

d) terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

e) features that modify the profit rates based on the given circumstances.

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

Investment securities

The 'investment securities' caption in the statement of financial position includes:

a) debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method;

b) debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;

c) debt securities measured at FVOCI; and

d) equity investment securities designated as at FVOCI.

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

a) Profits from the financial assets

b) ECL and reversals; and

c) Foreign exchange gains and losses.

When debt security measured at 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 fair value reserve. Cumulative gains and losses recognised in fair value reserve are transferred to retained earnings on disposal of an investment.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

Policy up to 31 December 2020 *(continued)*

Reclassifications

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

Impairment

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

a) financial assets that are debt instruments;

b) financial guarantee contracts issued; and

c) financing commitments issued.

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

a) debt investment securities that are determined to have low credit risk at the reporting date; and

b) other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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:

a) significant financial difficulty of the borrower or issuer;

b) a breach of contract such as a default or past due event more than 90 days;

c) the restructuring of a financing or advance by the Bank on terms that the Bank would not consider otherwise;

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

e) the disappearance of an active market for a security because of financial difficulties.

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

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

a) The market's assessment of creditworthiness as reflected in the Sukuk yields.

b) The rating agencies' assessments of creditworthiness.

c) The country's ability to access the capital markets for new debt issuance.

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

e) The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

Policy up to 31 December 2020 *(continued)*

Impairment *(continued)*

Calculation of expected credit loss (ECL)

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

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk

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

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

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

a. The remaining Lifetime PD at the reporting date has increased as result of downgrading of internal rating by two notches;

b. Inadequate or unreliable financial and other information such as unavailability of audited financial statement

c. Non-cooperation by the counterparty in matter pertaining to documentation

d. Counterparty is the subject of litigation by third parties that may have a significant impact on his financial position

e. Frequent changes in senior management

f. Intra-group transfer of funds without underlying transactions

g. Deferment/delay in the date for commencement of commercial operations by more than one year

h. Modification of terms resulting in concessions granted to counterparty including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, bank is guided by the extant instructions of CBO in regard to treating an account as restructured.

i. A fall of 25 percent or more in the turnover or in the EBIT as compared to previous year

j. Erosion in net-worth by more than 20 percent as compared to the previous year and coupled with an increase in leverage.

k. A fall in the debt service ratio below 1.

IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

Policy up to 31 December 2020 *(continued)*

Impairment *(continued)*

The bank estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a future macroeconomic scenario.

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

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

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Overview of the ECL principles

The Bank has 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 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

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

Stage 1

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

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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

Policy up to 31 December 2020 *(continued)*

Impairment *(continued)*

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 profit rate (EPR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the 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.

The calculation of ECLs

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

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

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

• EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments. As a conservative policy, the Bank has not taken any pre-payment of credit exposure. Had the bank applied early settlement or prepayment, Expected Credit Loss (ECL) would have reduced.

• LGD – The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The bank is applying LGD rate after adjusting with the applicable haircuts set with respect to the type of security for all wholesale banking secured portfolio. For all other portfolio including retail secured and retail unsecured, the Bank has applied 45% as LGD value to be on conservative side.

Write off policy

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.8 Investment in Ijarah asset

Operating Ijarah of the Bank as lessee:

Ijarah instalments are allocated over the financial periods of the lease term and recognised in the financial period in which these instalments are due. Ijarah instalments are presented in the lessee's statement of income as Ijarah expenses. Initial direct cost incurred by lessee for arranging for the lease agreement is, if material, allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If immaterial they are charged directly as an expense to the financial period in which the lease agreement is made.

Operating Ijarah of the Bank as lessor:

When the Bank rents out to a client asset that was previously rented by the Bank; the leased asset is presented in the lessor's statement of financial position under Investment in Ijarah assets.

3.9 Investment in real estate

Investment in real estate is classified as held-for-use and is measured at fair value under the fair value model of Financial Accounting Standard No. 26 issued by AAOIFI. These are initially recognised at cost including transaction cost and subsequently measured at fair value. Unrealised gains arising from a change in the fair value of investment in real estate are recognised directly in equity under "Property fair value reserve" for the period in which it arises taking into consideration the split between the portions related to owners' equity and equity of investment accountholders. Unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the property fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the statement of income. In case there are unrealised losses relating to investment in real estate that have been recognised in the statement of income in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the statement of income.

The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the property fair value reserve account are recognised in the statement of income for the current financial period, taking into consideration the split between the portion related to owners' equity and the portion related to investment accountholders.

3.10 Derecognition of financial assets and liabilities

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

(i) the right to receive cash flows from the asset has expired;

(ii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3.11 Jointly and self-financed

Investments, financing and receivables that are jointly owned by the Bank and equity of unrestricted investment accountholders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by the Bank are classified under "self-financed".

3.12 Fair value for financial assets

For investments quoted in an active market, fair value is determined by reference to quoted market prices.

For financial instruments where there is no active market, fair value is normally based on comparison with the current market value of highly similar financial instruments.

Where the fair value of an investment cannot be reliably measured, it is stated at the fair value of consideration given or amortised cost and any impairment in the value are recorded in statement of income. For Sales (Murabaha) receivables the fair value is determined at the end of the financial period at their cash equivalent value.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.13 Fair value for non-financial assets

Market prices represent the fair value for non-financial assets. In case market prices are not available, they are assessed by taking average value of three assessments from experienced and certified parties.

3.14 Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives from the date the assets is brought in to use as follows:

	Years
Furniture	5
Fixtures	10
Equipment	7
Motor vehicle	7
Computer hardware	5

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount, and the impairment is recorded in the statement of income.

3.15 Intangible assets

Intangible assets are classified according to their useful life for a specified or unspecified period of time. Intangible assets with definite useful life are amortised over 10 years and amortisation is recorded in statement of income. For intangible assets with indefinite useful life, impairment in value is reviewed at the reporting date and any impairment in their value is recorded in statement of income.

Any indications of impairment of intangible assets are reviewed at the reporting date; in addition, the useful lives of these assets are reviewed annually. If expected useful lives vary from the estimated ones the change in estimate is adjusted prospectively.

3.16 Equity of unrestricted investment accountholders

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.17 Profit equalisation reserve

Profit equalisation reserve, this is the amount appropriated by the Bank out of Mudaraba income before allocating the Bank's share as investment manager (Mudarib), in order to maintain a certain level of return on investment for unrestricted investment accountholders and increase owners' equity.

3.18 Investment risk reserve

Investment risk reserve is the amount appropriated by the Bank out of profit share of the unrestricted investment accountholders after allocating the Mudarib share, in order to cushion the effects of the risk of future investment losses.

The terms and conditions whereby investment risk reserve can be set aside and utilised are determined and approved by the Sharia Supervisory Board of the Bank.

3.19 Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Omani Riyal at the mid-rate of exchange at the reporting date. All differences are taken into the statement of income. Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment.

3.20 Offsetting

Financial assets and financial liabilities are only offset and the net amount is reported when there is a Sharia or legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.21 Revenue recognition

Sales receivables and other receivables

Murabaha profit from sales transactions is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised.

Istisna profit from Istisna is recognised using proportionate allocation over the future financial period of credit whereby each financial period shall carry its portion of profits irrespective of whether or not cash received.

Ijara Muntahia Bittamleek Ijara income is recognised on a time apportioned basis over the Ijara term.

Wakala Bil Istethmar

Income from Wakala Bil Istethmar is recognised on a time apportioned basis so as to yield a constant periodic rate of return based on the balance outstanding.

Investment in Ijarah asset

Ijarah revenue is allocated proportionately to the financial periods in the lease term. Ijarah revenue is presented in the lessor's statement of income as Ijarah revenue. Initial direct cost incurred by lessee for arranging for the lease agreement is, if material, be allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If immaterial they are charged directly as an expense to the financial period in which the lease agreement is made. Ijarah receivables are measured at their cash equivalent value.

Musharaka

Profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Bank's share as Mudarib of income from equity of unrestricted investment accountholders

The Bank's share as a Mudarib for managing equity of unrestricted investment accountholders is accrued based on the terms and conditions of the related Mudarib agreements.

Fee and commission

Fees and commission income is recognised upon rendering the services.

Dividends

Dividends are recognised when the right to receive payment is established.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.21 Revenue recognition *(continued)*

Income from investments

Income from investments is recognised when earned.

Rental income from investment in real estate

Rental income is accounted for on a straight-line basis over the term of the lease.

3.22 Return on equity of unrestricted investment accountholders

Investors' share of income is calculated based on income generated from joint investment accounts after deducting profit equalisation reserve, Bank's share as Mudarib, fund provider and investment risk reserve. The investors' share of income is distributed to the investors based on average participation balance in the Mudaraba pool.

3.23 Employee benefits

Obligations for contributions to an unfunded defined benefit retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as an expense in statement of income as incurred.

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

3.24 Directors' remuneration

Director's remuneration is calculated in accordance with the requirements of Commercial Companies Law and Capital Market Authority of the Sultanate of Oman.

3.25 Segment reporting

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

3.26 Taxation

Taxation is provided for based on the tax laws of Sultanate of Oman. Income tax comprises current and deferred tax. Income tax expense is recognised in statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

3.27 Earnings prohibited by Sharia

The Bank is committed to avoid recognising any income generated from Sharia non-compliant sources. Accordingly, all Sharia non-complaint income is credited to a charity fund and the Bank disburses these funds according to the Sharia Supervisory Board supervision and instructions.

3.28 Zakah

Reviewed the Zakat account and calculated the Zakat amount for each share is the responsibility of the Bank. Also, the disbursement of Zakat is the responsibility of Shareholders and not the responsibility of the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.29 Sharia supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Sharia Supervisory Board of the Bank which meets quarterly and consists of three prominent Sharia scholars appointed by the General Assembly of Shareholders.

-	Sheikh Dr. Mohammed Al-Gharbi	Chairman
-	Dr. Aznan Hasan	Member
-	Sheikh Ibrahim Al-Sawwafi	Member
-	Sheikh Ali Al Jahdami	Member

3.30 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

3.31 Dividend on ordinary shares

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

3.32 Earnings per share (EPS)

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

3.33 Provisions

The Bank recognizes provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events and reasonable estimate of the obligation can be made. Where the company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

3.34 New standards, amendments and interpretations

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

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

a) FAS 30 Impairment, Credit losses and onerous commitments

The Bank has adopted FAS 30, "Impairment, Credit Losses and Onerous Commitments" which is effective on the financial statements on or after 1 January 2021. The requirements of FAS 30 represent a significant change from earlier FAS 11, "Provisions and Reserves". FAS 30 replaces the 'incurred loss' model in FAS 11 with Expected Credit Loss ("ECL") model. The new impairment model "ECL" also applies to certain financing commitments and financial guarantee contracts but not to equity investments.

Prior to adoption of FAS 30, the Bank applied IFRS 9, "Financial Instruments" for calculation of expected credit losses which is analogous to FAS 30 duly observing compliance with Sharia principles and rules as specified by Sharia Supervisory Board. Central Bank of Oman (CBO) mandated the adoption of IFRS 9 for all banks including Islamic banks and Islamic windows as per Circular "BM 1149" dated 13 April 2017. In accordance with CBO circular BM 1149, Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant CBO norms, including those on Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except comparative periods which have not been restated. No differences in the carrying amounts of Islamic assets and liabilities have resulted from the adoption of FAS 30 which require adjustment in retained earnings and reserves as at 1 January 2021 due to adoption of analogous standard IFRS 9 earlier.

Since the:

i) Impairment requirements of IFRS 9 are similar to the requirements of FAS 30 as mentioned above for credit losses approach; and

ii) Management has adopted similar estimates and judgements as were implemented in IFRS 9, the Bank did not identify any material differences during the transition from IFRS 9 to FAS 30.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.34 New standards, amendments and interpretations *(continued)*

3.34.1 New standards, amendments and interpretations effective from 1 January 2021 *(continued)*

a) FAS 30 Impairment, Credit losses and onerous commitments *(continued)*

However, the provision as of the year ended 31 December 2020 incorporates the higher of the ECL determined under IFRS 9 or CBO norms, as required by circular "BM 1149". The differential amount is adjusted net of tax and is accordingly cumulated in the contra account of ECL along with the charge to impairment reserves under statement of changes in equity.

FAS 30 applies to all Islamic financing, investment and certain other assets held by the Bank that have similar characteristics. It also applies to certain off-balance-sheet exposures of the Bank. FAS 30 suggests various approaches for impairment assessment depending on the risk characteristics of the assets and exposures as follows:

a. Assets and exposures subject to credit risk (subject to credit losses approach):
   i. receivables; and
   ii. off-balance-sheet exposures;
b. Other financing and investment assets and exposures subject to risks other than credit risk (subject to impairment approach), excluding inventories; and
c. Inventories (subject to net realizable value approach).

Transition

Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except comparative periods which have not been restated. No differences in the carrying amounts of Islamic assets and liabilities have resulted from the adoption of FAS 30 which require adjustment in retained earnings and reserves as at 1 January 2021 due to adoption of analogous standard IFRS 9 earlier.

Any receivables from financing and investing activities including rental (Ijarah) and profit (Wakala) receivables shall continue to be subject to ECL approach.

However, Ijarah muntahia bittamleek, Wakala bil Istithmar and Diminishing Musharaka assets previously impaired under ECL approach shall now be subject to impairment.

b) FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)

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

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

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

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

The adoption of this standard has resulted in change in classification of all Wakala based funding contracts as part of equity of investment accountholders and additional associated disclosures (refer note 29). The impact is as shown below:

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.34 New standards, amendments and interpretations *(continued)*

3.34.1 New standards, amendments and interpretations effective from 1 January 2021 *(continued)*

b) FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) *(continued)*

Statement of income for the year ended 31 December 2020 restated:

	(restated) (Audited) 31 December 2020 RO'000 Amount upon adoption of FAS 31	(previously reported) (Audited) 31 December 2020 RO'000 Amount before adoption of FAS 31
Statement of income (extract)		
Profit paid on Wakala	-	(15,766)
Return on unrestricted investment accountholders before the Bank's share as Mudarib	**(30,803)**	(15,037)

Statement of financial position as at 31 December 2020 restated:

	(restated) (Audited) 31 December 2020 RO'000 Amount upon adoption of FAS 31	(previously reported) (Audited) 31 December 2020 RO'000 Amount before adoption of FAS 31
Statement of Financial Position (extract)		
Assets		
Wakala Bil Istethmar – net	**309,078**	298,608
Other assets	**6,454**	16,924
Liabilities		
Inter-bank Wakala	-	91,833
Customers' Wakala	-	353,468
Equity of unrestricted investment accountholders	**811,392**	366,091

Statement of cash flows for the year ended 31 December 2020:

	(restated) (Audited) 31 December 2020 RO'000 Amount upon adoption of FAS 31	(previously reported) (Audited) 31 December 2020 RO'000 Amount before adoption of FAS 31
Statement of cashflow (extract)		
Assets		
Wakala Bil Istethmar – net	**(128,749)**	(118,279)
Other assets	**1,631**	(8,839)
Customers' Wakala	-	15,617
Inter-bank Wakala	-	5,679
Unrestricted investment accountholders	**76,963**	55,667

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.34 New standards, amendments and interpretations *(continued)*

3.34.1 New standards, amendments and interpretations effective from 1 January 2021 *(continued)*

c) FAS 32 Ijarah and Ijarah muntahia bittamleek

This standard supersedes FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". The standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions, including their different forms entered into by an institution, in both the capacities of lessor and lessee. This standard brings significant changes from its predecessor standard (FAS 8), inter alia, in the following aspects:

a) Changes in the classification. Ijarah transactions under in this standard are classified into the following:
   i. Operating Ijarah;
   ii. Ijarah MBT with expected transfer of ownership after the end of the Ijarah term – either through a sale or gift; and
   iii. Ijarah MBT with gradual transfer – with gradual transfer ownership during the Ijarah term including Diminishing Musharaka Ijarah;

b. New recognition and measurement principles for initial recognition for right-of-use asset, Ijarah liability and advance payments for lessee and lessor accounting. There is a new concept of recognizing right-of-use asset and Ijarah liability for lessee accounting which was previously accounted for under FAS 8 and recognized and classified as rent expense in statement of income;

c. Requirement to identify and separate Ijarah and non-Ijarah components, if needed;

d. New recognition and measurement principles for an Ijarah MBT through gradual transfer / Diminishing Musharaka Ijarah, whereby the lessee shall recognize the 'combined asset' (including the right-of-use asset and the proportionate asset already owned by the lessee) whereas the lessor shall recognize the proportionate asset owned. FAS 8 requirements of recording monthly depreciation and gain and loss for such transactions are done away with;

e. Allowing effective rate of return/ profit rate method for accounting for rental income, in the hand of the lessor;

f. Testing for impairment of right-of-use asset shall be subject to requirements of FAS 30 "Impairment, Credit Losses and Onerous Commitments"; and

g. Detailed guidelines are provided for presentation and disclosures with enhanced disclosure by lessor and lessee of information as compared to previous requirements in FAS 8.

The adoption of this standard did not result in changes to the previously reported net profit or equity of the Bank. Accordingly, the Bank has decided to apply FAS 32 using the modified retrospective approach (i.e. the impact of all the eligible Ijarah contracts outstanding as of 31 December 2020) reflected in the balances as of 1 January 2021. Therefore comparative information has not been restated. The impact of the adoption of FAS 32 has resulted in an increase in the right to use assets (shown under property and equipment) and an increase in net Ijarah liability (shown under other liabilities). The lease contracts are related to the branches.

	Total assets	Total liabilities
Closing Balance (31 December 2020)	-	-
Impact on adoption:		
Right of use assets	1,963	-
Net Ijara Liability	-	1,963
Other Assets - Pre-payments	-	(179)
Opening Balance initial application of FAS 32 on 1 January 2021	1,963	1,784

d) FAS 33 Investment in Sukuk, Shares and Similar Instruments

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.34 New standards, amendments and interpretations *(continued)*

3.34.1 New standards, amendments and interpretations effective from 1 January 2021 *(continued)*

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

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

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

The Bank has already implemented IFRS 9 Financial Instruments (IFRS 9) considering the CBO Circular BM 1149 dated 13 April 2017.

The adoption of FAS 33 has resulted in changes in accounting policies for recognition, classification and measurement of investment in sukuks, shares and other similar instruments, however, the adoption of FAS 33 had no significant impact on any amounts previously reported in the financial statements for the year ended 31 December 2020. However, as per FAS 33 and FAS 30, the investment carried at fair value through equity shall be tested for impairment at each reporting period in accordance with FAS 30. On 1 January 2021, the Bank has performed the impairment testing and based on that they have identified RO ('000) 1,929 impairment on certain investments. Therefore, the cumulative effect as allowed as per the standards, the Bank has transferred the impairment from investment fair value reserve to retained earnings.

Statement of changes equity and Equity of unrestricted investment accountholders impact of FAS 33 for the year ended 31 December 2021:

	(Audited) 31 December 2021 RO'000 Amount upon adoption of FAS 33
Statement of changes in equity	
Retained earnings	(1,929)
Investment fair value reserve	1,595
Equity of unrestricted investment accountholders	334

e) FAS 34 Financial Reporting for Sukuk-holders

The standard was issued on 31 December 2018. FAS 34 aims to establish accounting and financial reporting principles for assets and businesses underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders, mainly Sukuk-holders. As the Bank has not issued any Sukuk so far, therefore, adoption of this standard did not result in changes to the previously reported net profit or equity of the Bank.

f) FAS 35 Risk Reserves

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.34 New standards, amendments and interpretations *(continued)*

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

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

FAS 38 Wa'ad, Khiyar and Tahawwut

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

4 Cash and balances with Central Bank of Oman

	2021	2020
	RO'000	RO'000
Cash in hand	**7,168**	5,443
Balances with Central Bank of Oman	**82,360**	62,000
Capital deposit with Central Bank of Oman	**500**	500
	90,028	67,943

The capital deposit with the Central Bank of Oman cannot be withdrawn without the prior approval of the Central Bank of Oman.

During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves was RO 32.351 million (2020: RO 27.754 million).

All the above exposures are classified as Stage 1 as at 31 December 2021.

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

5 Due from banks and financial institutions

	2021	2020
	RO'000	RO'000
Foreign banks – foreign currency	**5,906**	13,012
	5,906	13,012
Less: Impairment losses	**(55)**	(16)
Total	**5,851**	12,996

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

	2021	2020
	RO'000	RO'000
Balance at beginning of year	**16**	12
Provided during the year (note 13)	**39**	4
Total	**55**	16

There have been no significant changes in due from banks and financial institutions gross balances, which have contributed to significant changes to the ECL over the year.

6 Inter-bank Wakala investments

	2021	2020
	RO'000	RO'000
Local banks – local currency	27,000	-
Profit receivable	55	-
	27,055	-
Less: Impairment losses (note 13)	(214)	-
	26,841	-

The impairment losses movement against Inter-bank Wakala investments is as follow:

	2021	2020
	RO'000	RO'000
Impairment losses as at 1 January	-	6
Impairment losses during the year (note 13)	214	(6)
Balance at 31 December	214	-

7 Sales receivables and other receivables – net

	Jointly-financed 2021	Self-financed 2021	Total 2021
	RO'000	RO'000	RO'000
Sales receivables (Murabaha)- retail	137,563	1,837	139,400
Sales receivables (Murabaha)- corporate	120,023	-	120,023
Istisna receivables – corporate	3,096	-	3,096
Ijara rent receivables - retail	156	-	156
Ijara rent receivables – corporate	375	-	375
Credit card receivables	2,698	-	2,698
Gross sales receivables and other receivables	263,911	1,837	265,748
Less:			
Deferred profit	(26,697)	(166)	(26,863)
Impairment losses	(6,026)	(15)	(6,041)
Reserved profit	(118)	(2)	(120)
Net sales receivables and other receivables	231,070	1,654	232,724

	Jointly-financed 2020	Self-financed 2020	Total 2020
	RO'000	RO'000	RO'000
Sales receivables (Murabaha)- retail	125,723	1,950	127,673
Sales receivables (Murabaha)- corporate	104,995	-	104,995
Istisna receivables – corporate	4,099	-	4,099
Ijara rent receivables - retail	86	-	86
Ijara rent receivables – corporate	69	-	69
Credit card receivables	2,408	-	2,408
Gross sales receivables and other receivables	237,380	1,950	239,330
Less:			
Deferred profit	(25,923)	(184)	(26,107)
Impairment losses	(3,998)	(18)	(4,016)
Reserved profit	(99)	(2)	(101)
Net sales receivables and other receivables	207,360	1,746	209,106

7 Sales receivables and other receivables – net *(continued)*

The impairment losses movement against sales receivables and other receivables is as follow:

	2021	2020
	RO'000	RO'000
Balance at 1 January	4,016	2,813
Impairment losses during the year (note 13)	2,025	1,203
Balance at 31 December	6,041	4,016

The Deferred profit movement against sales receivables and other receivables is as follow:

	2021	2020
	RO'000	RO'000
Balance at 1 January	26,107	27,821
Deferred profit for the year	4,546	32
Deferred profit waived of during the year	(3,790)	(1,746)
Balance at 31 December	26,863	26,107

The reserved profit movement against sales receivables other receivables is as follow:

	2021	2020
	RO'000	RO'000
Balance at 1 January	101	16
Profit reserved during the year	19	85
Balance at 31 December	120	101

Total non-performing financing amounted to RO 13.692 million representing 1.19% of gross financing, as of 31 December 2021 (31 December 2020: RO 13.286 million representing 1.32% of gross financing).

8 Investment securities

	2021	2020
	RO'000	RO'000
Debt instrument measured at amortised cost (note a)	2,002	2,002
Debt/equity instruments measured through equity (note b)	127,038	100,208
Total before impairment losses	129,040	102,210
Less: Impairment losses (note 8a and 8b)	(716)	(191)
	128,324	102,019

a. Debt instrument measured at amortised cost

	Self-financed	
	2021	2020
	RO'000	RO'000
Local listed sukuk	2,002	2,002
Less: Impairment losses	(20)	(23)
Total local listed sukuk at amortised cost	1,982	1,979

8 Investment securities *(continued)*

b. Debt/equity instruments measured through equity

	Jointly-financed	
	2021	2020
	RO'000	RO'000
Debt instruments measured through equity (note i)	**124,313**	97,482
Equity instruments measured through equity (note ii)	**2,725**	2,726
Total before impairment losses	**127,038**	100,208
Less: Impairment losses	**(696)**	(168)
	126,342	100,040

i. Debt instruments measured through equity

	2021	2020
	RO'000	RO'000
Quoted investments		
Government Sukuk	**84,850**	76,374
Corporate Sukuk	**4,206**	3,958
Unquoted investments		
Government Sukuk	**35,257**	17,150
	124,313	97,482
Less: Impairment losses	**(696)**	(168)
	123,617	97,314

ii. Equity instrument measured through equity

	2021	2020
	RO'000	RO'000
Regional un-listed funds	**2,491**	2,385
Regional un-listed shares	**198**	284
Local listed shares	**36**	57
Total	**2,725**	2,726

8.1 Debt/equity instruments measured through equity

	Cost	**Fair value**
	2021	**2021**
	RO'000	RO'000
International un-listed Sukuk	**30,800**	**30,800**
International listed Sukuk	**766**	**766**
Regional un-listed Sukuk	**3,691**	**3,691**
Regional listed Sukuk	**1,372**	**1,359**
Regional un-listed funds	**2,130**	**2,491**
Regional un-listed shares	**334**	**198**
Local rated listed Sukuk	**81,689**	**83,491**
Local Unrated listed Sukuk	**4,206**	**4,206**
Local listed shares	**48**	**36**
Less: Impairment losses (note 8.i)	**-**	**(696)**
	125,036	**126,342**

8 Investment securities *(continued)*

8.1 Debt/equity instruments measured through equity *(continued)*

	Cost 2020	Fair value 2020
	RO'000	RO'000
International un-listed Sukuk	16,555	16,555
Regional un-listed Sukuk	595	595
Regional listed Sukuk	196	206
Regional un-listed funds	4,061	2,385
Regional un-listed shares	334	284
Local rated listed Sukuk	74,471	76,168
Local Unrated listed Sukuk	3,958	3,958
Local listed shares	48	57
Less: Impairment losses (note 8.i)	-	(168)
	100,218	100,040

The impairment losses against investments are as follow:

	2021	2020
	RO'000	RO'000
Balance at 1 January	**191**	236
Impairment losses created during the year (note 13)	**525**	(45)
Balance at 31 December	**716**	191

9 Musharaka financing - net

	2021		
	Jointly-financed	**Self-financed**	**Total**
	RO'000	**RO'000**	**RO'000**
Musharaka financing corporate	**173,868**	**-**	**173,868**
Musharaka financing retail	**91,045**	**3,159**	**94,204**
	264,913	**3,159**	**268,072**
Reserved profit	**(208)**	**-**	**(208)**
Less: Impairment losses	**(7,693)**	**(1)**	**(7,694)**
Net investment in Musharaka financing	**257,012**	**3,158**	**260,170**

	2020		
	Jointly-financed	**Self-financed**	**Total**
	RO'000	RO'000	RO'000
Musharaka financing corporate	130,811	-	130,811
Musharaka financing retail	47,954	2,492	50,446
	178,765	2,492	181,257
Reserved profit	(113)	-	(113)
Less: Impairment losses	(4,599)	(6)	(4,605)
Net investment in Musharaka financing	174,053	2,486	176,539

The Impairment losses movement against Musharaka as follow:

	2021	2020
	RO'000	RO'000
Balance at 1 January	**4,605**	3,462
Impairment losses created during the year (note 13)	**3,089**	1,143
Balance at 31 December	**7,694**	4,605

10 Investment in real estate

This represents investment in income generating industrial real estate, where 70% of the beneficial ownership is held by the Bank for a consideration of RO 14.175 million. Subsequently, the property has been leased under a master lease agreement for a period of ten years with a fixed rental amount.

Investment in real estate has been financed from Shareholders' funds and classified as self-finance investment and not included in the Mudaraba pool 'commingled pool'. All profits generated and costs in relation to the investment will be for the account of the Bank only and not subject to income distribution for the unrestricted investment accountholders.

The Bank follows sales comparison and investment approach-based valuation methodology and management believes that the fair value of investment in real estate is not materially different from its carrying value as at 31 December 2021. The valuation of asset is reviewed on regular basis to make necessary adjustment where required. At a minimum valuation is done at each reporting date either by engaging an external agency or through an independent internal unit.

11 Ijara Muntahia Bittamleek – net

	2021		
	Jointly-financed	**Self-financed**	**Total**
	RO'000	**RO'000**	**RO'000**
Real estate			
Cost	**321,591**	**13,535**	**335,126**
Accumulated depreciation	**(52,565)**	**(2,557)**	**(55,122)**
Net book value	**269,026**	**10,978**	**280,004**
Equipment			
Cost	**18,859**	**-**	**18,859**
Accumulated depreciation	**(5,688)**	**-**	**(5,688)**
Net book value	**13,171**	**-**	**13,171**
Total cost	**340,450**	**13,535**	**353,985**
Accumulated depreciation	**(58,253)**	**(2,557)**	**(60,810)**
Net book value before impairment losses	**282,197**	**10,978**	**293,175**
Less: Impairment losses	**(1,563)**	**(2)**	**(1,565)**
Net book value after impairment losses	**280,634**	**10,976**	**291,610**

	2020		
	Jointly-financed	**Self-financed**	**Total**
	RO'000	RO'000	RO'000
Real estate			
Cost	327,275	14,035	341,310
Accumulated depreciation	(48,736)	(2,217)	(50,953)
Net book value	278,539	11,818	290,357
Equipment			
Cost	22,371	-	22,371
Accumulated depreciation	(7,489)	-	(7,489)
Net book value	14,882	-	14,882
Total cost	349,646	14,035	363,681
Accumulated depreciation	(56,225)	(2,217)	(58,442)
Net book value before impairment losses	293,421	11,818	305,239
Less: Impairment losses	(1,306)	(28)	(1,334)
Net book value after impairment losses	292,115	11,790	303,905

11 Ijara Muntahia Bittamleek – net *(continued)*

The impairment losses movement against Ijara Muntahia Bittamleek is as follow:

	2021	2020
	RO'000	RO'000
Balance at 1 January	1,334	825
Impairment created during the year (note 13)	231	509
Balance at 31 December	1,565	1,334

12 Wakala Bil Istethmar – net

	Jointly-financed	
	2021	2020
	RO'000	RO'000
Wakala Bil Istethmar	331,511	304,714
Profit Receivable	15,279	10,470
Gross investment in Wakala Bil Istethmar	346,790	315,184
Reserved profit	(97)	(84)
Less: impairment losses	(7,271)	(6,022)
Net investment in Wakala Bil Istethmar	339,422	309,078

The impairment losses movement against Wakala Bil Istethmar as follow:

	2021	2020
	RO'000	RO'000
Balance at 1 January	6,022	2,680
Impairment losses created during the year (note 13)	1,249	3,342
Balance at 31 December	7,271	6,022

13 Impairment losses provision movement

	2021	2020
	RO'000	RO'000
Balance at 1 January	17,722	11,022
Impairment losses / (reversals) during the year for:		
Sales and other receivables (note 7)	2,025	1,203
Ijara Muntahia Bittamleek (note 11)	231	509
Wakala Bil Istethmar (note 12)	1,249	3,342
Musharaka financing (note 9)	3,089	1,143
Investments (note 8)	525	(45)
Due from banks (note 5)	39	4
Inter-bank Wakala investments (note 6)	214	(6)
Non-funded facilities (note 18)	(242)	550
Total impairment losses	7,130	6,700
Balance at 31 December	24,852	17,722

14 Property and equipment - net

2021	Furniture and fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Right-of-use assets	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January	4,848	1,156	166	2,335	-	-	8,505
Impact of FAS 32	-	-	-	-	-	1,963	1,963
Restated opening balance	4,848	1,156	166	2,335	-	1,963	10,468
Additions	70	55	-	66	239	625	1,055
Transfers	56	-	-	-	(56)	-	-
Disposals	-	-	(35)	-	-	-	(35)
Balance at 31 December	4,974	1,211	131	2,401	183	2,588	11,488
Accumulated depreciation at 1 January	(3,708)	(898)	(114)	(2,005)	-	-	(6,725)
Depreciation expense	(300)	(80)	(19)	(127)	-	(1,014)	(1,540)
Disposals	-	-	35	-	-	-	35
Accumulated depreciation at 31 December	(4,008)	(978)	(98)	(2,132)	-	(1,014)	(8,230)
Carrying value at 31 December	966	233	33	269	183	1,574	3,258

2020	Furniture and fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January	4,613	1,051	131	2,195	52	8,042
Additions	108	105	35	140	75	463
Transfers	127	-	-	-	(127)	-
Balance at 31 December	4,848	1,156	166	2,335	-	8,505
Accumulated depreciation at 1 January	(3,416)	(782)	(98)	(1,871)	-	(6,167)
Depreciation expense	(292)	(116)	(16)	(134)	-	(558)
Accumulated depreciation at 31 December	(3,708)	(898)	(114)	(2,005)	-	(6,725)
Carrying value at 31 December	1,140	258	52	330	-	1,780

15 Intangible assets

	Software	Capital work in progress	Total
2021	RO'000	RO'000	RO'000
Carrying value at 1 January	2,071	193	2,264
Additions	198	1,261	1,459
Transfers	173	(173)	-
Amortisation	(396)	-	(396)
Carrying value at 31 December	2,046	1,281	3,327

15 Intangible assets *(continued)*

	Software	Capital work in progress	Total
2020	RO'000	RO'000	RO'000
Carrying value at 1 January	2,175	192	2,367
Additions	191	79	270
Transfers	78	(78)	-
Amortisation	(373)	-	(373)
Carrying value at 31 December	2,071	193	2,264

16 Other assets

	2021	2020
	RO'000	RO'000
Profit receivable	**7,267**	5,424
Prepaid expense	**486**	378
Refundable deposits	**83**	83
Inventory	**51**	48
Asset seized by bank	**243**	243
Deferred tax assets (note 33)	**650**	-
Others	**313**	278
	9,093	6,454

17 Customers' accounts

	2021	2020
	RO'000	RO'000
Current accounts	**106,022**	111,986
Margin accounts	**107,366**	93,016
	213,388	205,002

18 Other liabilities

	2021	2020
	RO'000	RO'000
Payment orders	**6,743**	6,231
Creditors and accruals	**12,361**	13,414
Profit payable	**8,506**	5,837
Expected credit loss on non-funded facilities (note 13)	**1,296**	1,538
Tax liability	**2,864**	1,899
Lease liability	**1,372**	-
Others	**1,496**	1,258
	34,638	30,177

19 Equity of unrestricted investment accountholders

	2021	2020
	RO'000	RO'000
Inter-bank Wakala (refer note (a) below)	**20,527**	91,833
Customers' Wakala (refer note (b) below)	**549,330**	353,468
Unrestricted investment accountholders (refer note (c) below)	**346,665**	365,738
Investment fair value reserve	**347**	(2)
Investment risk reserve	**89**	355
	916,958	811,392

19 Equity of unrestricted investment accountholders *(continued)*

Unrestricted investment accounts comprise Mudaraba deposits accepted by the Bank. The funds received from equity of unrestricted investment accountholders have been commingled and jointly invested by the Bank.

The Bank has utilised full amount of profit equalisation reserve during the current year.

Equity of investment accountholders' fund is commingled with Bank's and Wakala fund to form one general Mudaraba pool. This pooled fund is used to fund and invest in banking assets generating income, however no priority is granted to any party for the purpose of investments and distribution of profits.

The Bank does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only the profits earned on pool of assets funded from IAH and owners' equity are allocated between the owners' equity and IAH.

As per the policy of the Bank, minimum of 50% of return on assets earned is distributed to investment accountholders and 50% is retained by the Bank as Mudarib share. The Bank did not charge any administration expenses to investment accounts.

The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year was 50% (2020: 50%).

a) Inter-bank Wakala

	2021	2020
	RO'000	RO'000
Local banks – local currency	**-**	36,000
Local banks – foreign currency	**19,250**	30,800
Foreign banks – local currency	**6**	8
Foreign banks – foreign currency	**1,271**	25,025
	20,527	91,833

b) Customers' Wakala

Under Wakala arrangement, Bank accepts funds from investors as Wakeel and invests in Sharia compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Bank as Wakeel. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala agreement, otherwise the loss would be borne by the investor or Muwakkil.

c) Equity of unrestricted investment accountholders

Account type	**2021**	**2020**
	RO'000	RO'000
Saving account	**266,500**	273,775
Investment accounts:		
One month	**22**	83
Three months	**638**	729
Six months	**1,220**	1,854
Nine months	**225**	246
One year	**30,249**	24,386
One and a half year	**3,053**	3,571
Two years	**37,782**	57,488
Three years	**422**	332
Four years	**171**	113
Five years	**1,247**	864
More than five years	**5,136**	2,297
	346,665	365,738

19 Equity of unrestricted investment accountholders *(continued)*

c) Equity of unrestricted investment accountholders *(continued)*

Basis of distribution of profit between owners' equity and unrestricted investment accountholders

The investment profits have been distributed between owners' equity and unrestricted investment accountholders for the year 2021 and 2020 as follows:

	2021 Percentage	2020 Percentage
Unrestricted investment accountholders share	50%	50%
Mudarib share	50%	50%

The investment risk reserve at nil percent (2020: nil) is deducted from customers' share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalisation reserve is the amount the Bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner equity and unrestricted investment accountholders.

The percentages of the profit allocation between owners' equity and unrestricted investment accountholders are as follows:

Account type	Participation factor		2021 average rate of return	2020 average rate of return
	RO	USD	RO	RO
Saving account	20% - 80%	15% - 30%	0.98%	1.02%
One-month tenure	46% - 50%	23% - 25%	1.35%	1.40%
Three months tenure	51% - 55%	25.5% - 27.5%	1.53%	1.53%
Six months tenure	61% - 68%	30.5% - 34%	1.90%	1.88%
Nine months tenure	66% - 73%	33% - 36.5%	2.05%	2.02%
One-year tenure	71% - 78%	35.5% - 39%	2.37%	2.33%
One year and a half tenure	78.5% - 85%	-	3.21%	3.21%
Two years tenure and above	79.5% - 87%	-	3.69%	3.69%

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

20 Paid-up capital

The authorised share capital of the Bank is RO 300,000,000 and the issued and paid up capital is RO 220,010,538 divided into 2,236,953,032 shares of a nominal value of RO 0.098 each (31 December 2020: RO 150,000,000 divided into 1,500,000,000 shares of a nominal value of RO 0.100 each).

Aflaj Financial Investment LLC is the only shareholder which owns 10% or more of the Bank's shares. On 31 December 2021 shareholding of Aflaj Financial Investment LLC was 783,286,155 shares equivalent to 35.02% (31 December 2020: shareholding of Aflaj Financial Investment LLC was 186,340,106 shares equivalent to 12.4%).

During the year, the bank raised additional capital through rights of 736,953,032 Shares at RO 0.095. In relation to the rights issue, the bank incurred RO 118,000 towards the issue expense which has been deducted from retained earnings.

21 Share premium

This represent share premium of RO 2,091,192 on issue of the shares of the Bank through Initial Public Offering (IPO). Expenses incurred on issuance were netted off.

22 Reserves

22.1 Investment fair value reserve

The fair value reserve includes the cumulative net change in fair value of the investment at fair value through equity.

22.2 Legal reserve

	2021	2020
	RO'000	RO'000
1 January	**3,266**	2,159
Appropriation for the year	**1,253**	1,107
31 December	**4,519**	3,266

In accordance with article 274 of Commercial Companies Law of 2019, annual appropriation of 10% of the profit for the year is required to be made to legal reserve until such time that accumulated reserve equals to one third of the Bank's paid up capital. This reserve is not available for distribution.

23 Dividend proposed

The Board of Directors in their meeting held on 30th January 2022 has proposed a cash dividends of 5 Baiza per share; amounting to RO 11.185 million (2020: 1.25 Baiza per share; amounting to RO 1.875 Million) from the Retained Earnings for the year 2021 subject to the approval of Central Bank of Oman, Capital Market Authority, and the Shareholders. Subsequently, the bank received approval for total cash dividend from the Central Bank of Oman of 3.5% of paid-up capital (RO 7.7 million). The Board's resolution of dividend distributions will be presented to the shareholders at the Annual General Meeting which will be held on 28 March 2022. The Capital Adequacy Ratio will reduce from 18.78% to 18.19% (2020: 13.68% to 13.53% against a minimum regulatory requirement of 12.25%); Common Equity Tier-1 ratio will reduce from 17.84% to 17.26% (2020: 12.78% to 12.63%), Tier 1 Ratio will reduce from 17.84% to 17.26% (2020: 12.78% to 12.63%).

24 Contingent liabilities and commitments

a) Contingent liabilities

	2021	2020
	RO'000	RO'000
Letters of guarantee	**111,037**	109,311
Letters of credit	**120,482**	115,048
Acceptances	**3,253**	880
Bills for collection	**573**	513
Total contingent liabilities (a)	**235,345**	225,752

The table below analysis the concentration of contingent liabilities by economic sector:

	2021	2020
	RO'000	RO'000
Construction	**77,770**	76,834
Manufacturing	**12,192**	5,909
Service	**111,136**	114,235
Others	**34,247**	28,774
	235,345	225,752

b) Commitments

	2021	2020
	RO'000	RO'000
Unutilised limits	**160,644**	110,834
Total commitments (b)	**160,644**	110,834
Total contingent liabilities and commitments (a+b)	**395,989**	336,586

25 Sales receivables and other receivables revenue

	Jointly-financed 2021 RO'000	Jointly-financed 2020 RO'000
Retail	**6,644**	6,268
Corporate	**5,182**	5,581
	11,826	11,849

26 Ijara Muntahia Bittamleek revenue

	Jointly-financed 2021 RO'000	Jointly-financed 2020 RO'000
Ijara Muntahia Bittamleek – real estate	**52,978**	49,131
Ijara Muntahia Bittamleek – equipment	**3,054**	4,909
Depreciation on Ijara Muntahia Bittamleek assets	**(40,578)**	(37,783)
	15,454	16,257

27 Profit from inter-bank Wakala investment

	Jointly-financed 2021 RO'000	Jointly-financed 2020 RO'000
Inter-bank Wakala local	**106**	132
Inter-bank Wakala foreign	**5**	12
	111	144

28 Profit from financial assets at fair value through equity

	Jointly-financed 2021 RO'000	Jointly-financed 2020 RO'000
Profit on Sukuk	**4,616**	3,571
Profit on funds investment	**74**	101
Gains on sale of Sukuk and investment funds	**2**	88
	4,692	3,760

29 Return on unrestricted investment accountholders before the Bank's share as a Mudarib

	2021 RO'000	2020 RO'000
Profit paid on wakala	**22,424**	15,766
Saving accounts	**8,254**	8,169
Investment accounts	**5,558**	6,868
	36,236	30,803

30 Bank's income from its own investments and financing

	2021	2020
	RO'000	RO'000
Rental income from investment in real estate	1,134	1,134
Profit from financial assets at amortised cost	130	130
Sales receivables revenue	57	60
Musharaka financing revenue	76	56
Ijara Muntahia Bittamleek revenue - net of depreciation	296	302
Gain on disposal of property and equipment	2	-
	1,695	1,682

31 Revenue from banking services

	2021	2020
	RO'000	RO'000
Commission income	1,390	1,060
Processing fees	3,306	3,095
Service charges	1,548	1,359
	6,244	5,514

32 Operating expenses

	2021	2020
	RO'000	RO'000
Staff cost	13,738	12,251
Rent expense	-	976
Advertisement	2,676	1,508
Operational leasing	137	123
Maintenance expense	907	911
Security and cleaning	277	267
Professional and consulting charges	346	237
Boards expenses	150	132
Government fee	205	161
Printing and stationery	98	98
Telephone, electricity and water	658	615
Traveling expense	31	29
Subscription expense	153	113
Cards expense	1,062	974
Finance charges on lease liability	73	-
Others	427	330
	20,938	18,725

33 Income tax

33.1 Recognised in the statement of income

	2021	2020
	RO'000	RO'000
Current tax liability	2,467	1,904
Deferred tax	(650)	(73)
Income tax expense	1,817	1,831

The Bank is subject to income tax at the rate of 15% of taxable profits (2020 - 15%).

33 Income tax *(continued)*

33.2 Reconciliation

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	2021	2020
	RO'000	RO'000
Profit as per financial statements	14,343	12,898
Tax liability at the rate mentioned above	2,151	1,935
Non-deductible expenses and other permanent differences	(22)	(31)
Deferred tax recognised from previous years	(312)	(73)
	1,817	1,831

33.3 Net deferred tax asset routed through statement of income are attributable to the following items:

Deferred tax asset is attributable to the following items:

	As at 1 Jan 2021	Recognised in income	As at 31 Dec 2021
	RO'000	RO'000	RO'000
Property and equipment	-	(489)	(489)
Other provisions	-	1,139	1,139
Net deferred tax asset	-	650	650

	As at 1 Jan 2020	Recognised in income	As at 31 Dec 2020
	RO'000	RO'000	RO'000
Property and equipment	(279)	279	-
Other provisions	11	(11)	-
Losses carried forward	268	(268)	-
Net deferred tax asset	-	-	-

The tax assessment of the Bank for the tax years 2018 to 2020 have not yet been agreed with the Tax Authority. The management considers that additional taxes, if any, that may become payable on finalization of the assessment in respect of the open tax years would not be material to the Bank's financial position as at 31 December 2021.

Deferred tax assets and liabilities routed through owner's equity is attributable to investment fair value reserve as of 31 December 2021 amounted to Nil (December 2020: Nil).

34 Net assets per share

Net assets per share is calculated by dividing the net assets at the year-end by number of shares outstanding at the end of reporting period

	2021	2020
Net assets (RO'000)	239,839	159,688
Number of shares at reporting date (note 22)	2,236,953,032	1,500,000,000
Net assets per share (RO)	0.107	0.106

35 Earnings per share- basic and diluted

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

Profit for the year (RO'000)	12,526	11,067
Weighted average number of shares outstanding during the year	1,695,847,792	1,500,000,000
Earnings per share basic and diluted (RO)	0.007	0.007

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

36 Segment reporting

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

Retail banking offers various products and facilities to individual customers to meet everyday banking needs.

Corporate banking delivers a variety of products and services to corporate and SMEs customers that includes financing, accepting deposits, trade finance and foreign exchange.

Treasury and investment banking provide a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk, in addition to asset management corporate advisory and investment products high net worth individuals and institutional clients.

Management monitors the operating results of the operating segments 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 an overall basis and are not allocated to operating segments.

Segment information is as follows:

	Retail banking	Corporate banking	Treasury and investment	Others	Total
31 December 2021	RO'000	RO'000	RO'000	RO'000	RO'000
Total revenue (joint)	22,983	36,941	4,803	-	64,727
Return on unrestricted investment accountholders	(7,736)	(21,825)	(1,771)	2,094	(29,238)
Bank's share in income from investment as a Mudarib and Rabul Maal	15,247	15,116	3,032	2,094	35,489
Bank's income from its own investments and financing	-	-	1,265	430	1,695
Other operating income	1,600	5,157	406	-	7,163
Total revenue	16,847	20,273	4,703	2,524	44,347
Staff cost	(8,276)	(4,515)	(947)	-	(13,738)
Other operating expenses	(4,066)	(2,791)	(343)	-	(7,200)
Depreciation and amortisation	(1,448)	(407)	(81)	-	(1,936)
Total expense	(13,790)	(7,713)	(1,371)	-	(22,874)
Profit before provisions and tax	3,057	12,560	3,332	2,524	21,473
Impairment losses	263	(6,614)	(779)	-	(7,130)
Profit before tax	3,320	5,946	2,553	2,524	14,343
Income tax	-	-	-	(1,817)	(1,817)
Profit for the year	3,320	5,946	2,553	707	12,526
Total assets	455,015	652,336	265,163	32,309	1,404,823
Total liabilities and equity of unrestricted investment accountholders	476,020	480,677	100,823	107,464	1,164,984

36 Segment reporting *(continued)*

31 December 2020	Retail banking RO'000	Corporate banking RO'000	Treasury and investment RO'000	Others RO'000	Total RO'000
Total revenue (joint)	21,057	29,791	3,904	-	54,752
Return on unrestricted investment accountholders	(6,969)	(16,333)	(1,455)	1,388	(23,369)
Bank's share in income from investment as a Mudarib and Rabul Maal	14,088	13,458	2,449	1,388	31,383
Bank's income from its own investments and financing	-	-	1,264	418	1,682
Other operating income	1,337	4,486	366	-	6,189
Total revenue	15,425	17,944	4,079	1,806	39,254
Staff cost	(7,482)	(3,888)	(881)	-	(12,251)
Other operating expense	(4,550)	(1,524)	(400)	-	(6,474)
Depreciation and amortisation	(724)	(174)	(33)	-	(931)
Total expense	(12,756)	(5,586)	(1,314)	-	(19,656)
Profit before provision and tax	2,669	12,358	2,765	1,806	19,598
Impairment loss	(137)	(6,610)	47	-	(6,700)
Profit before tax	2,532	5,748	2,812	1,806	12,898
Income tax	-	-	-	(1,831)	(1,831)
Profit after tax	2,532	5,748	2,812	(25)	11,067
Total assets	420,066	568,092	197,133	20,968	1,206,259
Total liabilities and equity of unrestricted investment accountholders	455,787	468,421	91,833	30,530	1,046,571

37 Financial instruments and financial assets

(a) Fair values of financial instruments

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying value and fair value estimates. As at the reporting date the fair values of the Bank's financial instruments are not significantly different from their carrying values.

(b) Fair values of financial instruments valuation hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. This fair value disclosure is divided into three levels as follows:

Level 1 portfolio

Level 1 assets and liabilities are typically exchange -traded positions and some government bonds traded in active markets. These positions are valued using unadjusted quoted prices in active markets.

Level 2 portfolio

Fair value is determined using valuation techniques based on valuation models with directly or indirectly market observable inputs. These valuation techniques include discounted cash flow analysis models, option pricing models, simulation models and other standard models commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as level 2.

37 Financial instruments and financial assets *(continued)*

Level 3 portfolio

Level 3 assets are valued using techniques similar to those outlined for level 2, except that if the instrument has one or more inputs that are unobservable and significant to the fair value measurement of the instrument in its entirety, it will be classified as level 3.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Transfer between Level 1 and 2

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy of investment securities during the year.

	Level 1	Level 2	Level 3	Total
	RO'000	RO'000	RO'000	RO'000
Investment securities	**36,424**	**90,614**	**-**	**127,038**
Investment in real estate (refer note 10)	**-**	**-**	**14,175**	**14,175**
Total financial assets at 31 December 2021	**36,424**	**90,614**	**14,175**	**141,213**

	Level 1	Level 2	Level 3	Total
	RO'000	RO'000	RO'000	RO'000
Investment securities	32,500	67,708	-	100,208
Investment in real estate (refer note 10)	-	-	14,175	14,175
Total financial assets at 31 December 2020	32,500	67,708	14,175	114,383

38 Related party 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. The aggregate amounts of balances with such related parties are as follows:

No impairment losses have been established in respect of the financing given to related parties.

31 December 2021	Principal shareholders	Sharia'a Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Sales receivables and other receivables	**159**	**56**	**147**	**362**
Ijara Muntahia Bittamleek	**395**	**68**	**1,451**	**1,914**
Wakala Bil Istethmar	**1,750**	**-**	**-**	**1,750**
Musharaka Financing	**3,011**	**109**	**264**	**3,384**
Customers' accounts	**5,699**	**3**	**250**	**5,952**
Unrestricted investment accountholders / Customers' wakala	**46,815**	**59**	**342**	**47,216**

38 Related party transactions *(continued)*

31 December 2020	Principal shareholders	Sharia'a Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Sales receivables and other receivables	8	62	174	244
Ijara Muntahia Bittamleek	424	72	1,557	2,053
Wakala Bil Istethmar	1,850	-	-	1,850
Musharaka Financing	1,351	-	-	1,351
Customers' accounts	237	6	163	406
Unrestricted investment accountholders / Customers' wakala	56,519	2	268	56,789

The ECL for exposures to related parties amount to RO 37,462 (2020: 9,534)

The statement of income includes the following amounts in relation to transactions with related parties:

31 December 2021	Principal shareholders	Sharia Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Profit account	**78**	**10**	**56**	**144**
Operating expenses				
- Staff expense	**-**	**-**	**2,025**	**2,025**
- Other expenses	**87**	**63**	**-**	**150**

31 December 2020	Principal shareholders	Sharia Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Profit account	121	7	37	165
Operating expenses				
- Staff expense	-	-	1,751	1,751
- Other expenses	74	58	-	132

39 Financial risk management

The Bank's activities expose it to a variety of financial risks. The management's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance. The Bank's risk management program is designed to set out the overarching philosophy, principles, requirements and responsibilities for a sound approach to risk oversight, management and on-going internal control assurance required within the Bank. All risk management policies and systems are regularly reviewed to reflect changes in markets, products and emerging best practice. Risk management is carried out by the Bank under policies approved by the Board of Directors. Risk policies explain the Bank's underlying approach to risk management, roles and responsibilities of the key players in risk management process as well as outlines tools and techniques for management of risks. The principal risks associated with the banking business are: credit risk, market risk, liquidity risk and operational risk.

The high-level risk framework mainly addresses the following:

- The oversight of board and senior management
- Overall policy approach of the Bank to establish risk appetite/tolerance, procedures and limits
- Identification, measurement, mitigation, controlling and reporting of risks
- Risk MIS at the Bank wide level

The risk management processes have been effective throughout the year and members of Senior Management and Board of Directors have remained active and involved in maintaining risk profile of the Bank at acceptable level and adequate capital is held as per the regulatory requirements.

39 Financial risk management *(continued)*

Credit risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from potential that a customer or counterparty's willingness to meet an obligation or its ability to meet such an obligation is impaired, resulting in an economic loss to the Bank. Credit risk management, administration and control are carried out by risk management teams, which report to the Board Governance, Risk and Compliance Committee. The Bank has well defined credit structures under which credit committees, comprising of senior officers with requisite banking background, critically scrutinize and sanction financing up to the delegated authority. The Bank's exposure to credit is managed on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential of risk concentration, counterparty limits, group exposure limits, and industry limits are monitored in light of changing

Counterparty and market conditions. All credit decisions are taken as per the Bank's credit risk policies and CBO regulations and are monitored accordingly. For purpose of capital charge, the Bank uses Basel II Standardardized approach.

With the recent adoption of FAS 30 standards, credit risk management has been enhanced further where more attributes have been taken into consideration, including but not limited, identifying existing emerging key risks related to industry, economics, transaction structure, terms and condition of the payments etc in assessment of ECL.

In addition to this, the Bank has also employed statistical model to incorporate related macro-economic factors including historical default rates. In absence of some important parameters or the where the information is too much deviated from the present forecast, qualitative PD overlay is used by the management after analysing the portfolio as per diagnostic tool.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank uses mathematical function which links the GDP with PD as a key input to ECL. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument.

Types of credit risk

Credit risk arises mainly on sales receivables and other receivables, Ijara Muntahia Bittamleek, Wakala Bil Istethmar, Musharaka financing, due from banks, investment in Sukuk and securities, investments in real-estate and interbank wakala.

The Bank finances these transactions based on two structures:

1) Murabaha: In this structure, the Bank buys an asset which represents the object of the Murabaha and the Bank resells this asset to the customer (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the customer over the agreed period. The transactions are secured at all times by the object of the Murabaha (in case of real estate and auto finance) and other times by a total collateral package securing the facilities given to the client.

2) Istisna: This is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. Istisna is stated net of deferred profits and provision for impairment.

Ijara Muntahia Bittamleek

This is a lease whereby the legal tittle of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara Instalments are settled.

Wakala Investments

This is an investment in which the Bank, in its capacity as the "Muwakkil" (Principal) appoints the customer as "Wakeel" (Agent) to manage the invested fund amount in Sharia-compliant activities that may be entered into, as agreed, by the Wakeel on behalf of the Muwakkil. The investment amount is not guaranteed while the profit rate is anticipated and cannot be fixed. Therefore, the utmost care is taken before taking any exposure.

39 Financial risk management *(continued)*

Credit risk *(continued)*

Musharaka financing

Musharaka means relationship established under a contract by a mutual consent of parties for profits and losses arising from a joint enterprise or venture. Investments come from all partners/shareholders and profits are distributed in the proportion mutually agreed in the contract. If one or more partners choose to become non-working or silent partners, the ratio of their profit cannot exceed the ratio which their capital investment bears to the total capital investment in Musharaka. Under the arrangement, both partners mutually agree to contribute capital for the Musharaka business activity and share any profit arising from the Asset or business activities according to a pre-agreed ratio, while loss is borne proportionate to their respective capital contribution.

Capital from the Bank (finance amount) can either be disbursed as a lump-sum amount or staggered through progressive payments, as mutually agreed by both parties in the agreement. The Musharaka Asset is co-owned by the Bank and the client proportionate to their respective capital contribution. In such a transaction, the Bank takes a risk in the Musharaka Asset to an extent of its share / capital contribution in it. The Bank's exposure (and hence the associated risk) continues to reduce over the life of the transaction, as the customer buys back units of the Bank's ownership share in the Musharaka Asset.

In case of a loss, the Bank bears the loss equivalent to its share / capital contribution in the Musharaka Asset. However, this is applicable subject to the fact that the loss has not occurred due to the gross negligence or wilful misconduct of the customer, as the Musharaka Manager, in which case, the customer shall solely be responsible for the entire loss.

The analysis of credit portfolio is given below:

(a) Geographical concentrations

	Assets			Liabilities		
	Gross due from banks and Interbank Wakala investment	Gross financing	Gross investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2021	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Sultanate of Oman	**27,000**	**1,158,506**	**90,500**	**1,109,383**	**19,250**	**361,874**
Other GCC countries	**3,179**	**-**	**7,342**	**-**	**1,271**	**18,956**
Europe and North America	**2,640**	**-**	**398**	**-**	**-**	**12,064**
Africa and Asia	**87**	**-**	**30,800**	**-**	**6**	**3,095**
	32,906	**1,158,506**	**129,040**	**1,109,383**	**20,527**	**395,989**

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Gross investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2020	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	-	1,030,540	82,185	924,208	66,800	309,715
Other GCC countries	1,705	-	3,072	-	19,250	9,824
Europe and North America	11,244	-	398	-	-	12,346
Africa and Asia	63	-	16,555	-	5,783	4,701
	13,012	1,030,540	102,210	924,208	91,833	336,586

39 Financial risk management *(continued)*

Credit risk *(continued)*

(b) Customer concentrations

2021	Assets: Due from banks and Interbank Wakala investment	Assets: Gross Financing	Assets: Investments in Sukuk and securities	Liabilities: Current, unrestricted IAH and customer Wakala	Liabilities: Interbank Wakala	Liabilities: Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	476,409	-	476,038	-	-
Corporate	32,906	682,097	8,932	110,640	20,527	306,459
Government	-	-	120,108	522,705	-	89,530
Total	32,906	1,158,506	129,040	1,109,383	20,527	395,989

2020	Assets: Due from banks & Interbank Wakala investment	Assets: Gross Financing	Assets: Investments in Sukuk & securities	Liabilities: Current, unrestricted IAH and customer Wakala	Liabilities: Interbank Wakala	Liabilities: Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	440,481	-	414,230	-	-
Corporate	13,012	590,059	8,685	131,986	91,833	241,797
Government	-	-	93,525	377,992	-	94,789
Total	13,012	1,030,540	102,210	924,208	91,833	336,586

(c) Economic sector concentrations

2021	Assets: Due from banks and interbank Wakala	Assets: Gross financing	Assets: Investments in Sukuk and securities	Liabilities: Current, unrestricted IAH and customer Wakala	Liabilities: Interbank Wakala	Liabilities: Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	476,409	-	476,038	-	-
Construction	-	103,116	-	23,954	-	130,585
Manufacturing	-	78,771	-	3,662	-	-
Financial services	32,906	-	-	-	20,527	-
Government	-	-	120,108	522,705	-	89,530
Other services	-	288,331	-	17,772	-	84,742
Others	-	211,879	8,932	65,252	-	91,132
	32,906	1,158,506	129,040	1,109,383	20,527	395,989

39 Financial risk management *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations *(continued)*

	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
2020	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	440,481	-	414,230	-	-
Construction	-	105,206	-	22,862	-	110,596
Manufacturing	-	84,214	-	8,245	-	17,942
Financial services	13,012	-	-	-	91,833	-
Government	-	-	93,525	377,992	-	94,789
Other services	-	216,944	-	15,568	-	70,413
Others	-	183,695	8,685	85,311	-	42,846
	13,012	1,030,540	102,210	924,208	91,833	336,586

(d) Gross credit exposure

	2021	2020
	RO'000	RO'000
Gross financing	1,158,506	1,030,540
Due from banks and interbank Wakala	32,906	13,012
Investments in Sukuk and securities	129,040	102,210
	1,320,452	1,145,762

(e) Geographical distribution of exposures:

	Sultanate of Oman	Other countries	Total
31 December 2021	RO'000	RO'000	RO'000
Gross Sales receivables and other receivables	265,748	-	265,748
Gross Ijarah Muntahia Bittamleek	293,175	-	293,175
Gross Musharaka financing	268,072	-	268,072
Gross Wakala Bil Istethmar	331,511	-	331,511
Investments in Sukuk and securities	90,500	38,540	129,040
Due from banks and interbank Wakala	27,000	5,906	32,906
	1,276,006	44,446	1,320,452

	Sultanate of Oman	Other countries	Total
31 December 2020	RO'000	RO'000	RO'000
Gross Sales receivables and other receivables	239,330	-	239,330
Gross Ijarah Muntahia Bittamleek	305,239	-	305,239
Gross Musharaka financing	181,257	-	181,257
Gross Wakala Bil Istethmar	304,714	-	304,714
Investments in Sukuk and securities	82,185	20,025	102,210
Due from banks and interbank Wakala	-	13,012	13,012
	1,112,725	33,037	1,145,762

39 Financial risk management *(continued)*

Credit risk *(continued)*

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

2021	Due from banks and interbank Wakala RO'000	Gross Sales receivables and other receivables RO'000	Gross Ijarah Muntahia Bittamleek RO'000	Gross Musharaka financing RO'000	Gross Wakala Bil Istethmar RO'000	Investment in Sukuk and securities RO'000	Total RO'000	Off balance sheet exposures RO'000
Construction	-	25,340	2,926	10,433	64,417	-	103,116	130,585
Electricity, gas and water	-	17,076	245	12,383	61,528	-	91,232	37,465
Financial institutions	32,906	-	-	-	-	-	32,906	-
Services	-	18,016	3,370	36,188	139,525	-	197,099	47,278
Personal financing	-	142,253	239,951	94,205	-	-	476,409	-
Government	-	-	-	-	-	120,108	120,108	89,529
Non-resident financing	-	-	-	-	-	-	-	-
Others	-	63,063	46,683	114,863	66,041	8,932	299,582	91,132
Total	32,906	265,748	293,175	268,072	331,511	129,040	1,320,452	395,989

2020	Due from banks and interbank Wakala RO'000	Gross Sales receivables and other receivables RO'000	Gross Ijarah Muntahia Bittamleek RO'000	Gross Musharaka financing RO'000	Gross Wakala Bil Istethmar RO'000	Investment in Sukuk & securities RO'000	Total RO'000	Off balance sheet exposures RO'000
Construction	-	17,270	3,627	9,097	75,212	-	105,206	110,596
Electricity, gas and water	-	14,148	278	14,856	62,989	-	92,271	27,042
Financial institutions	13,012	-	-	-	-	-	13,012	-
Services	-	21,662	3,928	17,830	81,253	-	124,673	43,371
Personal financing	-	130,168	259,867	50,446	-	-	440,481	-
Government	-	-	-	-	-	93,525	93,525	94,788
Non-resident financing	-	-	-	-	-	-	-	-
Others	-	56,082	37,539	89,028	85,260	8,685	276,594	60,789
Total	13,012	239,330	305,239	181,257	304,714	102,210	1,145,762	336,586

39 Financial risk management *(continued)*

Credit risk *(continued)*

(g) Residual contractual maturities of the portfolio by major types of credit exposures:

	Gross due from banks and interbank Wakala	Gross sales receivables and other receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Gross investment in Sukuk and securities	Total	Off balance sheet exposures
2021	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Upto 1 month	**32,906**	**13,066**	**1,061**	**407**	**34,719**	**70,873**	**153,032**	**16,531**
1 to 3 months	**-**	**30,029**	**2,684**	**3,567**	**52,191**	**-**	**88,471**	**22,860**
3 to 6 months	**-**	**33,527**	**3,894**	**4,769**	**51,452**	**6,268**	**99,910**	**101,354**
6 to 9 months	**-**	**19,058**	**4,048**	**5,577**	**12,721**	**-**	**41,404**	**10,082**
9 to 12 months	**-**	**15,705**	**4,270**	**5,296**	**8,448**	**2,176**	**35,895**	**221,765**
1 to 3 years	**-**	**95,396**	**49,068**	**67,680**	**101,866**	**202**	**314,212**	**19,356**
3 to 5 years	**-**	**35,640**	**50,407**	**62,201**	**22,862**	**26,132**	**197,242**	**3,363**
Over 5 years	**-**	**23,327**	**177,743**	**118,575**	**47,252**	**23,389**	**390,286**	**678**
	32,906	**265,748**	**293,175**	**268,072**	**331,511**	**129,040**	**1,320,452**	**395,989**

	Due from banks and interbank Wakala	Gross sales receivables and other receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Investment in Sukuk and securities	Total	Off balance sheet exposures
2020	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Upto 1 month	13,012	8,544	1,274	159	11,671	17,207	51,867	102,299
1 to 3 months	-	21,381	2,577	3,812	53,254	-	81,024	21,191
3 to 6 months	-	25,972	3,951	4,091	55,816	4,471	94,301	18,686
6 to 9 months	-	21,138	3,988	4,833	32,200	-	62,159	7,195
9 to 12 months	-	18,016	4,065	4,531	13,508	2,155	42,275	66,529
1 to 3 years	-	92,301	48,447	51,581	87,379	2,002	281,710	116,800
3 to 5 years	-	35,136	45,878	55,442	39,194	53,375	229,025	1,328
Over 5 years	-	16,842	195,059	56,808	11,692	23,000	303,401	2,558
	13,012	239,330	305,239	181,257	304,714	102,210	1,145,762	336,586

(h) Distribution of impaired financing, past due and not past due financing by type of industry:

	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
31 December 2021	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Personal financing	**475,786**	**623**	**430**	**696**
Resident corporate financing	**669,028**	**13,069**	**6,664**	**14,781**
	1,144,814	**13,692**	**7,094**	**15,477**

	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
31 December 2020	RO'000	RO'000	RO'000	RO'000
Personal financing	439,954	527	335	1,054
Resident corporate financing	577,300	12,759	3,848	10,741
	1,017,254	13,286	4,183	11,795

39 Financial risk management *(continued)*

Credit risk *(continued)*

(i) Distribution of impaired financing and past due financing by geographical distribution:

31 December 2021	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Sultanate of Oman	1,144,814	13,692	7,094	15,477
Total	1,144,814	13,692	7,094	15,477

31 December 2020	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Sultanate of Oman	1,017,273	13,286	4,183	11,795
Total	1,017,273	13,286	4,183	11,795

(j) Maximum exposure to credit risk without consideration of collateral held:

	2021 RO'000	2020 RO'000
Due from banks and interbank Wakala investments	32,906	13,012
Investment in Sukuk and securities	129,040	102,210
Gross Financing	1,158,506	1,030,540
	1,320,452	1,145,762
Off-balance sheet items		
Financial guarantee	111,037	109,311
Financial letter of credits	120,482	115,048
Acceptances	3,253	880
Bills for collection	573	513
Commitments	160,644	110,834
	395,989	336,586

39 Financial risk management *(continued)*

Credit risk *(continued)*

(k) Movement in ECL

31 December 2021	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Exposure subject to ECL (gross) 1 January 2021				
Gross financing, commitments and financial guarantees	946,161	381,267	13,293	1,340,721
Debt instruments measured though equity	97,482	-	-	97,482
Debt instruments measured at amortised cost	-	2,002	-	2,002
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	13,012	-	-	13,012
	1,056,655	383,269	13,293	1,453,217
Net transfer between stages				
Gross financing, commitments and financial guarantees	123,189	62,469	828	186,486
Debt instruments measured though equity	23,126	3,705	-	26,831
Debt instruments measured at amortised cost	-	-	-	-
Interbank wakala investments	27,000	-	-	27,000
Due from banks, central banks and other financial assets	(7,106)	-	-	(7,106)
	166,209	66,174	828	233,211
Exposure subject to ECL (gross) 31 December 2021				
Gross financing, commitments and financial guarantees	1,069,350	443,736	14,121	1,527,207
Debt instruments measured though equity	120,608	3,705	-	124,313
Debt instruments measured at amortised cost	-	2,002	-	2,002
Interbank wakala investments	27,000	-	-	27,000
Due from banks, central banks and other financial assets	5,906	-	-	5,906
	1,222,864	449,443	14,121	1,686,428
Expected Credit Loss as at 1 January 2021				
Gross financing, commitments and financial guarantees	3,481	9,849	4,185	17,515
Debt instruments measured though equity	168	-	-	168
Debt instruments measured at amortised cost	-	23	-	23
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	16	-	-	16
	3,665	9,872	4,185	17,722
Charge for the period (net)				
Gross financing, commitments and financial guarantees	(594)	3,940	3,006	6,352
Debt instruments measured though equity	470	58	-	528
Debt instruments measured at amortised cost	-	(3)	-	(3)
Interbank wakala investments	214	-	-	214
Due from banks, central banks and other financial assets	39	-	-	39
	129	3,995	3,006	7,130
Expected Credit Loss as at 31 December 2021				
Gross financing, commitments and financial guarantees	(2,887)	(13,789)	(7,191)	(23,867)
Debt instruments measured though equity	(638)	(58)	-	(696)
Debt instruments measured at amortised cost	-	(20)	-	(20)
Interbank wakala investments	(214)	-	-	(214)
Due from banks, central banks and other financial assets	(55)	-	-	(55)
	(3,794)	(13,867)	(7,191)	(24,852)
Net closing balance - as at 31 December 2021				
Gross financing, commitments and financial guarantees	1,066,463	429,947	6,930	1,503,340
Debt instruments measured though equity	119,970	3,647	-	123,617
Debt instruments measured at amortised cost	-	1,982	-	1,982
Interbank wakala investments	26,786	-	-	26,786
Due from banks, central banks and other financial assets	5,851	-	-	5,851
	1,219,070	435,576	6,930	1,661,576

39 Financial risk management *(continued)*

Credit risk *(continued)*

(k) Movement in ECL *(continued)*

	Stage 1	Stage 2	Stage 3	Total
31 December 2020	RO'000	RO'000	RO'000	RO'000
Exposure subject to ECL (gross) 1 January 2020				
Gross financing, commitments and financial guarantees	990,644	161,455	294	1,152,393
Investment securities	62,963	-	-	62,963
Financial assets at amortised cost	1,993	-	-	1,993
Interbank wakala investments	455	-	-	455
Due from banks, central banks and other financial assets	20,321	-	-	20,321
	1,076,376	161,455	294	1,238,125
Net transfer between stages				
Gross financing, commitments and financial guarantees	(44,483)	219,812	12,999	188,328
Investment securities	34,519	-	-	34,519
Financial assets at amortised cost	(1,993)	2,002	-	9
Interbank wakala investments	(455)	-	-	(455)
Due from banks, central banks and other financial assets	(7,309)	-	-	(7,309)
	(19,721)	221,814	12,999	215,092
Exposure subject to ECL (gross) 31 December 2020				
Gross financing, commitments and financial guarantees	946,161	381,267	13,293	1,340,721
Investment securities	97,482	-	-	97,482
Financial assets at amortised cost	-	2,002	-	2,002
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	13,012	-	-	13,012
	1,056,655	383,269	13,293	1,453,217
Expected Credit Loss as at 1 January 2020				
Gross financing, commitments and financial guarantees	4,268	6,125	375	10,768
Investment securities	227	-	-	227
Financial assets at amortised cost	-	9	-	9
Interbank wakala investments	6	-	-	6
Due from banks, central banks and other financial assets	12	-	-	12
	4,513	6,134	375	11,022
Charge for the period (net)				
Gross financing, commitments and financial guarantees	(787)	3,724	3,810	6,747
Investment securities	(59)	-	-	(59)
Financial assets at amortised cost	-	14	-	14
Interbank wakala investments	(6)	-	-	(6)
Due from banks, central banks and other financial assets	4	-	-	4
	(848)	3,738	3,810	6,700
Expected Credit Loss as at 31 December 2020				
Gross financing, commitments and financial guarantees	3,481	9,849	4,185	17,515
Investment securities	168	-	-	168
Financial assets at amortised cost	-	23	-	23
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	16	-	-	16
	3,665	9,872	4,185	17,722
Net closing balance - as at 31 December 2020				
Gross financing, commitments and financial guarantees	942,680	371,418	9,108	1,323,206
Investment securities	97,314	-	-	97,314
Financial assets at amortised cost	-	1,979	-	1,979
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	12,996	-	-	12,996
	1,052,990	373,397	9,108	1,435,495

39 Financial risk management *(continued)*

Credit risk *(continued)*

(l) Outbreak of Coronavirus (COVID 19)

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

Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. 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 financing instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of 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 (refer CBO circular no. BSD/CB/2020/001for details). These measures have been extended until 31 March 2021.

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 are given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, does not automatically lead to financing being measured on the basis of lifetime losses and considerable judgment will be needed to measure ECLs at this time. When it is not possible to reflect such 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/FAS 30 guidelines issued by the CBO stipulates:

- CBO's measures related to deferment of financing repayment by a borrower may not on its own trigger the counting of 30 Days Past Due (DPD) or more backstop used to determine SICR or the 90 DPD backstop used to determine default. However, banks shall continue to assess the obligor's likelihood of payment of amount due after the deferment period, and in case of SICR or credit impairment and if the same is not of a temporary nature, 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 finance 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.
- Banks and FLCs must develop estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions consideration should be given both to the effects of Covid-19 coupled with oil prices & 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 banks and FLCs in their FAS 30 models couldn't 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. However, Banks and FLCs are expected to use post model adjustments and management overlays by applying multiple macroeconomic scenarios with careful application of probability weights to each of such scenarios while computing ECL on portfolio basis as prudence.

39 Financial risk management *(continued)*

Credit risk *(continued)*

(l) Outbreak of Coronavirus (COVID 19) *(continued)*

The Bank 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.

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

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.

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 on the reporting date the collective provision held by the bank through management overlays amounts to 11.2% (2020:8.6%) of total impairment based on latest available PD term structure and macro-economic forecasts. This is in addition to the existing ECL provision considered on a conservative practice to mitigate any unforeseen impacts in the portfolio. The Bank will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

Management overlays

Given the ever evolving nature of the current health and economic crisis, the banks 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 2020 is yet to reasonably reflect the impact of the economic disruption caused by Covid-19 and also to fully factor in the financial intervention by the relevant state authorities.

Hence, based on guidance, as a measure of prudence, wherever necessary, the bank has applied post model adjustments and management judgment overlays, while computing its ECL with an intention to collectively cover the:

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

In determining above, the management has considered following assumptions:

- Oil price used by the Bank around $55 (31 December 2020: $45/bbl)

39 Financial risk management *(continued)*

Credit risk *(continued)*

(l) Outbreak of Coronavirus (COVID 19) *(continued)*

Scenario weightages used by the Bank

Scenario weightings of 50%, 30%, 20% for Base, Downside and Upside scenarios (31 December 2020: 90%, 10%, 0%).

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under FAS 30 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%.

Sensitivity of impairment estimates ECL on non-impaired financing	ECL Dec-21	ECL Dec-20
	RO'000	RO'000
Simulations		
Upside case - 100% weighted	16,501	12,797
Base case - 100% weighted	23,754	12,797
Downside scenario - 100% weighted	39,016	20,204

Accounting for modification loss and government grant

The Bank has allowed deferment of financial obligation of certain customers for a period of six months in line with the CBO circular issued in March 2020. Further deferment was issued by CBO in September 2020 for a period of six months in which local banks in Sultanate of Oman have been encouraged to delay financing repayments for affected customers. Further, there was an extensions from CBO to March 2022.

Stage-wise analysis of customers benefiting from payment deferrals

The following table contains an analysis of the deferred amount of principal outstanding and accrued profit to the customers, who have been provided with such benefits, and the related ECL:

	Stage 1	Stage 2	Stage 3	Total
Gross Finance and off-balance sheet facilities	RO'000	RO'000	RO'000	RO'000
Off–balance sheet exposures				
Total exposure to customers benefiting from payment deferrals	205,343	316,373	5,710	527,426
Total ECL on exposure to customers benefiting from payment deferrals	1,160	10,868	2,576	14,604
Of Which:				
Deferred amount	47,109	116,350	772	164,231
Allowances for impairment (ECL)	1,160	10,868	2,576	14,604
Carrying amount	204,183	305,505	3,134	512,822

Impact on the Capital Adequacy

The bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. The impact of above filter on the bank's regulatory capital is 18 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.

(m) Exposure at default methodology

The exposure at default is used to measure the lifetime expected credit losses and 12-month expected credit losses. The Bank measures expected credit losses at a client level for wholesale banking and at pool level for retail. It also includes expected credit losses on the undrawn commitment component from those on the financing component. It recognizes expected credit losses for the undrawn commitment together with the loss allowance for the financing component in the statement of financial position. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses is presented as a provision. For undrawn commitment, Credit Conversion Factor (CCF) to convert commitment to on-balance sheet where cancellable limits have 20% CCF and for uncancellable committed facility has 100%. For all off-balance sheet exposure, CCF is applied according to the type of facility.

39 Financial risk management *(continued)*

Credit risk *(continued)*

(n) Credit quality *(continued)*

The credit quality of financial assets is managed by the Bank using internal and external credit risk ratings. The Bank follows an internal rating mechanism for grading relationship across its credit portfolio. The Bank utilizes a scale ranging from 1 to 10 for credit relationship with 1 to 7 denoting performing grades, 8, 9 and 10 denoting non-performing. All credits are assigned a rating in accordance with defined criteria.

The Bank endeavours continuously to improve upon internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Bank. All financing relationships are reviewed at least once in a year and more frequently in case of non-performing assets.

The following table provides the details for the credit quality financial assets subject to ECL:

31 December 2021 (RO'000)	2021			
	Stage 1	Stage 2	Stage 3	Total
Performing grades (Grade 1 to 7)				
Gross financing amount including off-balance sheet	1,069,350	443,736	-	1,513,086
ECL on Financing	(2,888)	(13,789)		(16,677)
Gross Investments	124,313	2,002	-	126,315
ECL on Investments	(696)	(20)	-	(716)
Gross Interbank	27,000	-	-	27,000
ECL on Interbank	(214)	-	-	(214)
Due from Banks, Central Banks and Other Financial Assets	5,906	-	-	5,906
ECL on Due from Banks, Central Banks and Other Financial Assets	(55)	-	-	(55)
Carrying amount	1,222,716	431,929	-	1,654,645
Non-performing grades (Grade 8 - 10)				
Gross financing amount including off-balance sheet	-	-	14,121	14,121
ECL on Financing	-	-	(7,190)	(7,190)
Gross Investments	-	-	-	-
ECL on Investments	-	-	-	-
Gross Interbank	-	-	-	-
ECL on Interbank	-	-	-	-
Carrying amount	-	-	6,931	6,931
Total of performing and Non-performing grades (Grade 1 - 10)				
Total gross financing amount including off-balance sheet	1,069,350	443,736	14,121	1,527,207
Total ECL on Financing	(2,888)	(13,789)	(7,190)	(23,867)
Total Gross Investments	124,313	2,002	-	126,315
Total ECL on Investments	(696)	(20)	-	(716)
Total Gross Interbank	27,000	-	-	27,000
Total ECL on Interbank	(214)	-	-	(214)
Due from Banks, Central Banks and other financial assets	5,906	-	-	5,906
ECL on Due from Banks, Central Banks and other financial assets	(55)	-	-	(55)
Carrying amount	1,222,716	431,929	6,931	1,661,576

39 Financial risk management *(continued)*

Credit risk *(continued)*

(n) Credit quality *(continued)*

31 December 2020 (RO'000)	2020			
	Stage 1	Stage 2	Stage 3	Total
Performing grades (Grade 1 to 7)				
Gross financing amount including off-balance sheet	946,161	381,267	-	1,327,428
ECL on Financing	(3,481)	(9,849)		(13,330)
Gross Investments	97,482	2,002	-	99,484
ECL on Investments	(168)	(23)	-	(191)
Gross Interbank	-	-	-	-
ECL on Interbank	-	-	-	-
Due from Banks, Central Banks and Other Financial Assets	13,012	-	-	13,012
ECL on Due from Banks, Central Banks and Other Financial Assets	(16)	-	-	(16)
Carrying amount	1,054,969	371,418	-	1,426,387
Non-performing grades (Grade 8 - 10)				
Gross financing amount including off-balance sheet	-	-	13,293	13,293
ECL on Financing	-	-	(4,185)	(4,185)
Gross Investments	-	-	-	-
ECL on Investments	-	-	-	-
Gross Interbank	-	-	-	-
ECL on Interbank	-	-	-	-
Carrying amount	-	-	9,108	9,108
Total of performing and Non-performing grades (Grade 1 - 10)				
Total gross financing amount including off-balance sheet	946,161	381,267	13,293	1,340,721
Total ECL on Financing	(3,481)	(9,849)	(4,185)	(17,515)
Total Gross Investments	97,482	2,002	-	99,484
Total ECL on Investments	(168)	(23)	-	(191)
Total Gross Interbank	-	-	-	-
Total ECL on Interbank	-	-	-	-
Due from Banks, Central Banks and other financial assets	13,012	-	-	13,012
ECL on Due from Banks, Central Banks and other financial assets	(16)	-	-	(16)
Carrying amount	1,052,990	373,397	9,108	1,435,495

39 Financial risk management *(continued)*

Credit risk *(continued)*

(n) Credit quality *(continued)*

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

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

The most significant period-end assumptions used for the ECL estimate as at Dec 31, 2021 were GDP and CPI. (GDP 2021: 2.43%, 2022: 2.93%) and (CPI 2021: 103.8, 2020: 106.2).

Liquidity risk

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

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

The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the limit set with respect to various time buckets as set out in Bank's Risk Appetite and Strategy Statement. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date. In addition to this, the Bank also monitors and report liquidity in line with Basel III ratios that includes Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR).

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required ("Required stable funding") of a bank is a function of the liquidity characteristics and residual maturities of the various assets held by the Bank as well as those of its off-balance sheet (OBS) exposures.

Treasury department of the Bank and Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds.

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 assets and liabilities by estimated remaining maturities at the balance sheet date.

39 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities

31 December 2021	Due on demand and up to 30 days RO'000	More than 1month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
Cash and balances with Central Bank of Oman	59,848	5,120	4,199	13,343	7,518	90,028
Inter-bank Wakala and Due from banks	22,692	10,000	-	-	-	32,692
Financing to customers - net	48,445	177,929	71,494	475,645	350,413	1,123,926
Investment securities	32,477	3,501	9,527	82,819	-	128,324
Investment in real estate	-	-	-	14,175	-	14,175
Intangible assets	-	-	-	-	3,327	3,327
Property and equipment	-	-	-	-	3,258	3,258
Other assets	71	1,041	433	3,146	4,402	9,093
Total assets	163,533	197,591	85,653	589,128	368,918	1,404,823
Customer accounts, Wakala and unrestricted accountholders	108,892	175,034	141,510	467,347	237,474	1,130,257
Other liabilities	-	3,214	13,668	9,478	8,278	34,638
Investment risk and profit equalization reserve	-	-	-	-	89	89
Owners' equity	-	-	-	-	239,839	239,839
Total liabilities, equity of unrestricted investment accountholders and owners' equity	108,892	178,248	155,178	476,825	485,680	1,404,823
Net gap	54,641	19,343	(69,525)	112,303	(116,762)	-
Cumulative net gap	54,641	73,984	4,459	116,762	-	-

39 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

31 December 2020	Due on demand and up to 30 days RO'000	More than 1month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
Cash and balances with Central Bank of Oman	67,443	-	-	-	500	67,943
Inter-bank Wakala and Due from banks	12,996	-	-	-	-	12,996
Financing to customers - net	20,983	166,736	98,493	443,881	268,535	998,628
Investment securities	17,207	4,471	2,155	55,377	22,809	102,019
Investment in real estate	-	-	-	14,175	-	14,175
Intangible assets	-	-	-	-	2,264	2,264
Property and equipment	-	-	-	-	1,780	1,780
Other assets	103	572	294	1,444	4,041	6,454
Total assets	118,732	171,779	100,942	514,877	299,929	1,206,259
Customer accounts, Wakala and unrestricted accountholders	140,147	146,896	166,648	372,168	190,180	1,016,039
Other liabilities	-	4,585	5,633	13,925	6,034	30,177
Investment risk and profit equalization reserve	-	-	-	-	355	355
Owners' equity	-	-	-	-	159,688	159,688
Total liabilities, equity of unrestricted investment accountholders and owners' equity	140,147	151,481	172,281	386,093	356,257	1,206,259
Net gap	(21,415)	20,298	(71,339)	128,784	(56,328)	-
Cumulative net gap	(21,415)	(1,117)	(72,456)	56,328	-	-

Market risk

Market risk is the risk of loss due to unfavourable movements in market factors such as rates of return, exchange rates, commodities and equity prices. The Bank's Market risks arise generally due to open positions in foreign currencies, holding common equity, and fixed return products. All such instruments and transactions are exposed to general and specific market movements. For purpose of Capital Charge, the Bank uses Basel II standardized Approach.

The Bank seeks to mitigate market risk by employing strategies that correlate rate and price movements of its earning asset and liabilities. The Bank has Assets and Liability Committee (ALCO) which monitors Market and Liquidity Risk on regular basis. The details of market risk faced by the bank are discussed in the following notes.

39 Financial risk management *(continued)*

Market risk *(continued)*

(a) Currency risk

Currency risk is the risk of loss resulting from fluctuations in foreign exchange rates. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealings.

The Bank undertakes currency risk mostly to support its trade finance services and cross-border FX exposures. It maintains overall foreign exchange risk position to the extent of statutory Net Open Position limit prescribed by CBO. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Omani Rial. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk. Foreign Exchange Risk exposures are managed as per Bank's Risk Management policies.

Exposure limits such as counterparty and currency limits are also in place in accordance with the Bank's approved policies to limit risk and concentration to the acceptable levels.

The foreign currency exposures are given below:

Foreign currency exposures

	2021	2020
	RO'000	RO'000
Net assets denominated in US Dollars	**66,010**	4,691
Net assets denominated in other foreign currencies	**6,553**	1,690

Rate of Return Risk

Rate of Return Risk is the risk of deviations in earnings or economic value due to adverse movement of the yield curve. It is inherent primarily to the banking book mainly through advances and deposits portfolio.

The profit rate exposure of the Bank arises due to mismatches between contractual maturities or re-pricing of on and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability Committee (ALCO) that reviews the profit rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.

The sensitivity of the statement of income is the effect of the assumed changes in profit rates on the earning for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at reporting date.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant.

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

	2021	2020
	RO'000	RO'000
+200 bps	**6,465**	4,965
+100 bps	**3,232**	2,483
-200 bps	**(6,465)**	(4,965)
-100 bps	**(3,232)**	(2,483)

39 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk *(continued)*

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to re-pricing of assets and that of the corresponding liability. The Bank manages these mismatches by risk policy guidelines and reduces risk by matching the re-pricing of assets and liabilities

31 December 2021	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 6 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-profit bearing RO'000	Total RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	90,028	90,028
Inter-bank Wakala and Due from banks	17,000	10,000	-	-	-	5,692	32,692
Financing to customers – net	305,206	169,636	61,615	373,247	214,222	-	1,123,926
Investment Securities	32,441	3,501	6,839	82,819	-	2,724	128,324
Investment in real estate	-	-	-	-	-	14,175	14,175
Intangible asset	-	-	-	-	-	3,327	3,327
Property and equipment	-	-	-	-	-	3,258	3,258
Other assets	-	-	-	-	-	9,093	9,093
Total assets	354,647	183,137	68,454	456,066	214,222	128,297	1,404,823
Customer accounts, Wakala and unrestricted accountholders	65,396	99,433	73,200	477,777	180,189	234,262	1,130,257
Other liabilities	-	-	-	-	-	34,638	34,638
Investment risk and profit equalisation reserve	-	-	-	-	89	-	89
Shareholders' equity	-	-	-	-	-	239,839	239,839
Total liabilities and shareholders' equity	65,396	99,433	73,200	477,777	180,278	508,739	1,404,823
On-balance sheet gap	289,251	83,704	(4,746)	(21,711)	33,944	(380,442)	-
Cumulative profit sensitivity gap	289,251	372,955	368,209	346,498	380,442	-	-

39 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk *(continued)*

Profit rate sensitivity gap *(continued)*

31 December 2020	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 6 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-profit bearing RO'000	Total RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	67,943	67,943
Inter-bank Wakala and Due from banks	-	-	-	-	-	12,996	12,996
Financing to customers - net	275,645	169,225	97,486	356,191	100,081	-	998,628
Investment Securities	17,150	721	246	55,186	23,000	5,716	102,019
Investment in real estate	-	-	-	-	-	14,175	14,175
Intangible asset	-	-	-	-	-	2,264	2,264
Property and equipment	-	-	-	-	-	1,780	1,780
Other assets	-	-	-	-	-	6,454	6,454
Total assets	292,795	169,946	97,732	411,377	123,081	111,328	1,206,259
Customer accounts, Wakala and unrestricted accountholders	99,220	77,783	62,859	451,387	141,772	183,018	1,016,039
Other liabilities	-	-	-	-	-	30,177	30,177
Investment risk and profit equalisation reserve	-	-	-	-	355	-	355
Shareholders' equity	-	-	-	-	-	159,688	159,688
Total liabilities and shareholders' equity	99,220	77,783	62,859	451,387	142,127	372,883	1,206,259
On-balance sheet gap	193,575	92,163	34,873	(40,010)	(19,046)	(261,555)	-
Cumulative profit sensitivity gap	193,575	285,738	320,611	280,601	261,555	-	-

39 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk *(continued)*

(a) Equity risk

Bank is exposed to the volatility in the prices of the securities (i.e. Sukuk and Shares) held under equity portfolio. Equity investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity investments. Hence the exposure in listed and unlisted equity exposure as of date is taken in banking book and capital is calculated accordingly.

Since there is NIL exposure in trading book therefore no stress testing and sensitivity analysis is carried out.

Operational risk

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromised, regulatory non-compliance, loss of key staff, and social and environmental impacts.

The Bank has developed operational risk management policy and all the critical controls are implemented at all levels for curtailing operational risk. Each division has processes and systems in place to address operational risks within their area.

For the purpose of measuring capital charge, the Bank has adopted the Basic Indicator Approach under Basel II for Operational Risk. The approach requires the Bank to provide 15% of the average three years gross annual income as capital charge for operational risk.

Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year.

The Bank's regulatory capital is divided into two tiers:

a) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings; and

b) Tier 2 capital: general provision and unrealized gains arising on the fair valuation of equity instruments at fair value through equity.

Book value of other intangible assets including software is deducted from Tier 1 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of potential future exposure.

The Bank will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

39 Financial risk management *(continued)*

Capital risk management *(continued)*

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2021 and 2020 as follows:

Capital structure	2021	2020
	RO'000	RO'000
TIER I CAPITAL		
Paid up capital	220,011	150,000
Share premium	2,091	2,091
Legal reserve	4,519	3,265
Retained earnings	11,413	4,188
Fair value gains or losses on financial assets at fair value through equity	(308)	(2,313)
Less: Intangible assets	(3,327)	(2,264)
Less: Deferred tax asset	(650)	-
Total Tier I capital	233,749	154,967
TIER II CAPITAL		
Fair value gains on financial assets at fair value through equity	1,039	1,037
Impairment losses	11,214	9,863
Total Tier II capital	12,253	10,900
Total eligible capital	246,002	165,867
Risk weighted assets		
Credit risk	1,163,613	1,145,255
Market risk	73,476	5,105
Operational risk	72,887	62,106
Total	1,309,976	1,212,466
Tier I capital	233,749	154,967
Tier II capital	12,253	10,900
Total regulatory capital	246,002	165,867
Tier I capital ratio	17.84%	12.78%
Total capital ratio	18.78%	13.68%
Common Equity Tier 1 (CET1)	233,749	154,967
Common Equity Tier 1 ratio	17.84%	12.78%

39 Financial risk management *(continued)*

Liquidity coverage ratio (LCR) and Net-Stable Funding Ratio (NSFR)

The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations require banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. The Bank current LCR ratio as of Dec 31, 2021 stands at 272.54% (Dec 31, 2020: 133.83%) and NSFR stands at 126.65% (Dec 31, 2020: 118.98%).

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

(a) Standard, special mention and non-performing Financing accounts (31 December 2021)

Asset Classification as per CBO norms	Asset Classification as per IFRS 9	Gross amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net amount as per CBO norms	Net amount as per IFRS 9
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) =(3)-(4)	(8) = (3)-(5)
Standard	Stage 1	1,050,209	9,229	2,808	6,421	1,040,980	1,047,401
	Stage 2	307,864	1,730	6,515	(4,785)	306,134	301,349
	Stage 3	-	-	-	-	-	-
Subtotal		1,358,073	10,959	9,323	1,636	1,347,114	1,348,750
Special Mention	Stage 1	19,141	178	80	98	18,963	19,061
	Stage 2	135,872	1,053	7,273	(6,220)	134,819	128,599
	Stage 3	-	-	-	-	-	-
Subtotal		155,013	1,231	7,353	(6,122)	153,782	147,660
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	1,004	251	300	(49)	753	704
Subtotal		1,004	251	300	(49)	753	704
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	5,078	2,539	2,294	245	2,539	2,784
Subtotal		5,078	2,539	2,294	245	2,539	2,784
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	8,039	3,991	4,597	(606)	4,048	3,442
Subtotal		8,039	3,991	4,597	(606)	4,048	3,442
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	153,514	-	906	(906)	153,514	152,608
	Stage 2	5,707	-	79	(79)	5,707	5,628
	Stage 3	-	-	-	-	-	-
Subtotal		159,221	-	985	(985)	159,221	158,236
Total All	Stage 1	1,222,864	9,407	3,794	5,613	1,213,457	1,219,070
	Stage 2	449,443	2,783	13,867	(11,084)	446,660	435,576
	Stage 3	14,121	6,781	7,191	(410)	7,340	6,930
Total		1,686,428	18,971	24,852	(5,881)	1,667,457	1,661,576

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

(a) Standard, special mention and non-performing Financing accounts (31 December 2020) *(Continued)*

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
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) =(3)-(4)-(10)	(8) = (3)-(5)
	Stage 1	910,161	8,452	2,474	5,978	901,709	907,687
	Stage 2	248,507	1,255	2,333	(1,078)	247,252	246,174
Standard	Stage 3	-	-	-	-	-	-
Subtotal		1,158,668	9,707	4,807	4,900	1,148,961	1,153,861
	Stage 1	36,000	302	1,007	(705)	35,698	34,993
	Stage 2	132,760	988	7,516	(6,528)	131,772	125,244
Special Mention	Stage 3	-	-	-	-	-	-
Subtotal		168,760	1,290	8,523	(7,233)	167,470	160,237
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Substandard	Stage 3	5,689	1,422	1,849	(427)	4,267	3,840
Subtotal		5,689	1,422	1,849	(427)	4,267	3,840
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Doubtful	Stage 3	335	167	150	17	168	185
Subtotal		335	167	150	17	168	185
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Loss	Stage 3	7,269	3,169	2,186	983	4,100	5,083
Subtotal		7,269	3,169	2,186	983	4,100	5,083
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	110,494	-	184	(184)	110,494	110,310
	Stage 2	2,002	-	23	(23)	2,002	1,979
	Stage 3	-	-	-	-	-	-
Subtotal		112,496	-	207	(207)	112,496	112,289
	Stage 1	1,056,655	8,754	3,665	5,089	1,047,901	1,052,990
	Stage 2	383,269	2,243	9,872	(7,629)	381,026	373,397
Total All	Stage 3	13,293	4,758	4,185	573	8,535	9,108
Total		1,453,217	15,755	17,722	(1,967)	1,437,462	1,435,495

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

(b) Restructured accounts

31 December 2021								
Assets 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	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7) =(3)-(4	(8) =(3)-(5)	(9)
Classified as performing	Stage 1	19,759	180	95	85	19,579	19,664	-
	Stage 2	85,524	781	5,810	(5,029)	84,743	79,714	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		105,283	961	5,905	(4,944)	104,322	99,378	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	4,940	2,525	2,190	335	2,415	2,750	-
Sub Total		4,940	2,525	2,190	335	2,415	2,750	-
Total	Stage 1	19,759	180	95	85	19,579	19,664	-
	Stage 2	85,524	781	5,810	(5,029)	84,743	79,714	-
	Stage 3	4,940	2,525	2,190	335	2,415	2,750	-
		110,223	3,486	8,095	(4,609)	106,737	102,128	-

31 December 2020								
Assets 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	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(4	(8)=(3)-(5)	(9)
Classified as performing	Stage 1	26,668	224	668	(444)	26,444	26,000	-
	Stage 2	19,210	186	2,066	(1,880)	19,024	17,144	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		45,878	410	2,734	(2,324)	45,468	43,144	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	71	36	18	18	35	53	2
Sub Total		71	36	18	18	35	53	2
Total	Stage 1	26,668	224	668	(444)	26,444	26,000	-
	Stage 2	19,210	186	2,066	(1,880)	19,024	17,144	-
	Stage 3	71	36	18	18	35	53	2
		45,949	446	2,752	(2,306)	45,503	43,197	2

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

(c) Non-performing financing ratio

	31 December 2021 (RO '000)		
	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	3,216	7,130	(3,914)
Provisions required as per CBO norms/held as per IFRS 9	18,971	24,852	(5,881)
Gross NPA ratio %	0.93	0.93	-
Net NPA ratio %	0.49	0.46	0.03

	31 December 2020 (RO '000)		
	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	6,076	6,700	(624)
Provisions required as per CBO norms/held as per IFRS 9	15,755	17,722	(1,967)
Gross NPA ratio %	0.99	0.99	-
Net NPA ratio %	0.64	0.69	0.05

41 Corresponding figures

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison and for better presentation, the effect of which is not material.

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Agreed-Upon Procedures Report on Bank Nizwa SAOG Basel II - Pillar III Disclosures

To the Board of Directors of Bank Nizwa SAOG ("the Bank")

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

Our report is solely for the purpose of assisting the Board of Directors for evaluating the Bank Nizwa SAOG compliance with the disclosure requirements set out in the Central Bank of Oman's ("the CBO") Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013 and may not be suitable for another purpose. This report is intended solely for the Board of Directors 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) are 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 Board of Directors, 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 Board of Directors in the terms of our engagement letter with Bank Nizwa SAOG on Basel II – Pillar III Disclosures:

S. No	Procedures	Findings
1	We have performed the procedures prescribed in the Islamic Banking Regulatory Framework ("IBRF") issued by the CBO under Circular No. IB 1 dated 18 December 2012 ("the Procedures") with respect to the Basel II -Pillar III Disclosures and Basel III related Disclosures ("the Disclosures") of Bank Nizwa SAOG as at and for the year ended 31 December 2021.	No exceptions found.

KPMG

KPMG LLC
13 March 2022

KPMG
KPMG LLC
Children's Public Library Building
4th floor, Shatti Al Qurum
P O Box 641, PC 112
Sultanate of Oman
CR.No: 1358131

Enclosures:
Bank Nizwa SAOG Basel II – Pillar III Disclosures

BASEL II PILLAR 3 ANNUAL DISCLOSURES 2021

1. Overview and Introduction

In compliance with the Central Bank of Oman ("CBO") guidelines on implementing Basel II Capital Accord for all banks operating in Oman as of September 2006, and in light of Islamic Banking Regulatory Framework (IBRF), Bank Nizwa has developed its risk management techniques to assure adequate monitoring and managing its risks.

The Basel II Accord is based on three pillars as follows:

- **Pillar I** - defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk.
- **Pillar II** - addresses a bank's internal processes for assessing overall capital adequacy in relation to risks ("ICAAP"). Pillar II also introduces the Supervisory Review and Evaluation Process ("SREP"), which can be used as a tool to assess the internal capital adequacy of any organization.
- **Pillar III** - complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy. The aim of these disclosures is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specified information on the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution.

Pillar III disclosures include information about Bank Nizwa relating to our governance structure, capital structure, capital adequacy and requirements, risk management objectives and policies, and various supporting quantitative and qualitative disclosures along with a comparison with Dec 2020 financials.

2. Scope of Application

2.1 Qualitative Disclosure

- The Bank was registered in the Sultanate of Oman as a public joint stock company on 15 August 2012.
- The Bank's shares are listed on the Muscat Securities Market "MSM" and its principle place of business is in Muscat, Sultanate of Oman.
- The Bank is not a part of any holding company or group and has no subsidiary.
- The authorized share capital of the Bank is RO 300,000,000 and the issued and paid up capital is RO 220,010,538 divided into 2,236,953,032 shares (31 December 2020: RO 150,000,000 divided into 1,500,000,000 shares).
- During the year, the bank raised additional capital through rights of 736,953,032 Shares at RO 0.095. In relation to the rights issue, the bank incurred RO 118,000 towards the issue expense which has been deducted from retained earnings.
- M/S Aflaj Financial Investment LLC is the only shareholder who owns 10% or more of the Bank's shares. On 31 December 2021 shareholding of Aflaj Financial Investment LLC was 783,286,155 shares equivalent to 35.02% (31 December 2020: shareholding of Aflaj Financial Investment LLC was 186,340,106 shares equivalent to 12.4%).
- Financial and regulatory reporting is being done on standalone basis hence no associated disclosures related to consolidation is required.

2.2 Quantitative Disclosure

(a) Total interest in Takaful Entities: The Bank holds 0.48% of Oman Takaful and does not have any control in the Company and accordingly it is not consolidated in any form.

3. Capital Structure

3.1 Qualitative Disclosure

- The authorised share capital of the Bank is RO 300,000,000 and the issued and paid up capital is RO 220,010,538 divided into 2,236,953,032 shares (31 December 2020: RO 150,000,000 divided into 1,500,000,000 shares).
- The Bank has no other capital instruments or equity related instruments that are considered as part of its regulatory capital.
- Unrestricted Investment Accounts are defined under section Unrestricted Investment Accounts. These are not considered as part of the equity and will only affect Capital Adequacy Ratio calculation to reduce Risk-Weighted Assets. However, the Bank is following conservative approach by not reducing Risk-Weighted Assets.
- There is no minority interest, surplus capital from Takaful companies and the Bank has no shareholdings equal or exceeding 5% of total paid-up capital.

3.2 Quantitative Disclosure

The detailed breakdown of the capital structure of the Bank is as follows:

	2021	2020
	RO'000	RO'000
(a) Tier I Capital		
Paid up capital	**220,011**	150,000
Share premium	**2,091**	2,091
Legal Reserve	**4,519**	3,266
Accumulated Losses	**11,413**	4,188
Net Fair value losses on financial assets at fair value through equity	**(219)**	(2,313)
Less: Intangible Assets, Including Losses, Cumulative Unrealized Losses Recognized Directly In Equity	**(3,327)**	(2,264)
Less: Deferred Tax Assets	**(650)**	-
Total Tier I capital	**233,838**	154,968
(b) Tier II Capital		
Fair value gains on financial assets at fair value through equity	**1,000**	1,037
Impairment Losses/General provision	**11,214**	9,863
Total Tier II capital	**12,214**	**10,900**
Total eligible capital	**246,052**	165,868

(c) Unrestricted Investment Account and Related Reserves	2021	2020
	RO'000	RO'000
Amount of unrestricted Investment Accountholder (IAH) Funds	**346,665**	365,738
Investment fair value reserve	**347**	(2)
Profit Equalization Reserve (PER)	**-**	-
Investment Risk Reserve (IRR)	**89**	355

4. Capital Adequacy

4.1 Qualitative Disclosure

- The primary objective of the Bank's capital management is to ensure that the Bank complies with regulatory capital requirements and maintains healthy capital ratios in order to support its business and to optimize shareholders' value.
- The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return on capital to shareholders or issue Sukuk etc.
- The capital structure is primarily made up of its paid-up capital and including reserves. From a regulatory perspective, the significant amount of the capital is in Tier 1 form as defined by the CBO, i.e., most of the capital is of permanent nature.
- The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, future sources and uses of funds.
- To assess its capital adequacy requirements in accordance with CBO requirements, the Bank adopts the Standardized Approach for its Credit and Market Risk and the Basic Indicator Approach for its Operational Risk. In a normal course of business, all assets are funded by the common pool unless otherwise approved by ALCO in advance. The Bank's Asset Liability Committee (ALCO) decides on the participation ratio in advance for funding the common pool of assets. On a quarterly basis, based on the financials, the assessment of Risk-Weighted Assets is according to the utilization of Unrestricted Investment Accountholder and shareholders' fund in funding assets through the common pool.

4.2 Quantitative Disclosure

The ratio of equity to risk-weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December, 2021 is 18.78% (31 December, 2020:13.68%). Please refer the note below for a material information in this regard.

	2021		2020	
(a) Capital Requirements	RO'000		RO'000	
	Risk-Weighted Assets (RWA)	**Capital Requirement at 12.25%**	**Risk-WeightedAssets (RWA)**	**Capital Requirementat 13.5%**
Credit Risk	**1,163,613**	**142,543**	1,145,255	140,294
Market Risk	**73,476**	**9,001**	5,105	625
Operational Risk	**72,887**	**8,929**	62,106	7,608
Total	**1,309,976**	**160,472**	1,212,466	148,527

(b) Capital Requirements	**2021**	**2020**
Details	**RO'000**	**RO'000**
Tier I Capital (after supervisory deductions)	**233,838**	154,968
Tier II capital (after supervisory deductions & up to eligible limits)	**14,827**	10,900
Risk-Weighted Assets – Banking Book	**1,237,089**	1,150,360
Risk-Weighted Assets – Operational Risk	**72,887**	62,106
Total Risk-Weighted Assets – Banking Book + Operational Risk	**1,309,976**	1,212,466
Minimum required capital to support RWAs of banking book & operational risk	**160,472**	148,527
i) Minimum required Tier I Capital for banking book & operational risk	**148,258**	137,614
ii) Tier II Capital required for banking book & operational risk	**12,214**	10,900
Tier I capital available for supporting Trading Book	**85,580**	17,354
Tier II capital available for supporting Trading book	-	-
Risk-Weighted Assets – Trading Book	-	-
Total capital required to support Trading Book	-	-
Minimum Tier I capital required for supporting Trading Book	-	-
Total Regulatory Capital	**246,052**	165,868
Total Risk-Weighted Assets – Whole bank	**1,309,976**	1,212,466
Common Equity Tier 1 (as a percentage of Risk-Weighted assets)	**17.85%**	12.78%
Tier 1 (as a percentage of Risk-Weighted assets)	**17.85%**	12.78%
Total capital (as a percentage of Risk-Weighted assets)	**18.78%**	13.68%

(c) Capital Adequacy Ratio	**2021**	**2020**
	RO'000	RO'000
Total Risk-Weighted Assets (RWA)	**1,309,976**	1,212,466
Total Eligible Capital	**246,052**	165,868
Capital Adequacy Ratio	**18.78%**	13.68%
(d) Ratio of Total and Tier 1 Capital to Total RWA		
Tier 1 Capital	**233,838**	154,968
Total Capital	**246,052**	165,868
Total RWA	**1,309,976**	1,212,466
Ratio of Total Capital	**18.78%**	13.68%
Ratio of Tier 1 Capital	**17.85%**	12.78%
Ratio of CET 1 Capital	**17.85%**	12.78%
(e) Ratio of Total Capital to Total Assets		
Total Capital	**246,052**	165,868
Total Assets	**1,404,823**	1,206,259
Total Capital to Total Assets	**17.51%**	13.75%

Note:

The Board of Directors in their meeting held on 30th January 2022 has proposed a cash dividends of 5 Baiza per share; amounting to RO 11.185 million (2020 approved: 1.25 Baiza per share; amounting to RO 1.875 Million) from the Retained Earnings for the year 2021 subject to the approval of Central Bank of Oman , Capital Market Authority, and the Shareholders.

The Board's resolution of dividend distributions will be presented to the shareholders at the Annual General Meeting which will be held on 28 March 2022. The Capital Adequacy Ratio will reduce from 18.78% to 17.93% (2020: 13.68% to 13.53% against a minimum regulatory requirement of 12.25%; Common Equity Tier-1 ratio will reduce from 17.85% to 17.00% (2020: 12.78% to 12.63%), Tier 1 Ratio will reduce from 17.85% to 17.00% (2020: 12.78% to 12.63%).

(f) Disclosure of Capital Requirements according to different risk categories for each Sharia compliant financing contract:

	2021			2020		
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	Credit risk	Market risk	Risk-Weighted Assets	Credit risk	Market risk	Risk-Weighted Assets
Ijara Muntahia Bittamleek	**16,953**	**-**	**138,394**	18,328	-	149,616
Sales Receivable and Other Receivables	**26,971**	**-**	**220,168**	22,258	-	181,698
Wakala Bil Istethmar	**55,886**	**-**	**456,210**	61,110	-	498,857
Musharaka Financing	**25,105**	**-**	**204,942**	17,375	-	141,836
Letter of Guarantees	**6,801**	**-**	**55,519**	6,695	-	54,656
Letter of Credit	**2,962**	**-**	**24,182**	2,819	-	23,010
Acceptance and Bills for Collection (Wakala)	**363**	**-**	**2,960**	171	-	1,393
Total	**135,041**		**1,102,375**	128,755		1,051,065

(g) Disclosure of Displaced Commercial Risk

The Bank is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Bank has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The related disclosure on Displaced Commercial Risk is given in Section 17.

5. Disclosures for Investment Accountholders (IAH)

5.1 Qualitative Disclosure

- The Bank offers Unrestricted Investment Accounts based on fully sharia compliant concept of Mudaraba and Wakala.
- In Mudaraba, the Bank (Mudarib) manages Investment Account Funds (IAH) along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Sharia compliant investments opportunities. Such information is available for all customers at Bank's website, branches, and call center.
- Under Wakala arrangement, Bank accepts funds from investors as Wakeel and invests in Sharia compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Bank as Wakeel. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala agreement, otherwise the loss would be borne by the investor or Muwakil.
- The Bank maintains necessary reserves as required by CBO.
- Any profits accrued out of the investment are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Investor (Rab-ul-Maal). Operating expenses incurred by the Bank are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the pool, as at that date, in the respective ratio of the Bank's and IAH's respective contribution to the fund.

- The investment profits are distributed between owners' equity and unrestricted investment accountholders as follows:

	2021	2020
	Percentage	Percentage
Unrestricted investment accounts share	50%	50%
Mudarib share	50%	50%

The investment risk reserve at Zero percent (2020: Zero percent) is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount the bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner equity and unrestricted investment accountholders.

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

- IAH funds are managed according to Bank's approved policy and accordingly the Bank monitors the performance of the portfolio in order to achieve expected results. The prudential reserves have been established according to CBO and Sharia guidelines.

5.2 Quantitative Disclosure

The related disclosure of Unrestricted Investment Account is given below:

a) PER to PSIA Ratio

	2021	2020
	RO'000	RO'000
Amount of Total PER	NIL	NIL
Amount of PSIA by IAH	346,665	365,738
PER to PSIA Ratio	0%	0%

b) IRR to PSIA Ratio

	2021	2020
	RO'000	RO'000
Amount of Total IRR	89	355
Amount of PSIA by IAH	346,665	365,738
IRR to PSIA Ratio	0.03%	0.10%

c) Return on Assets (ROA)

	2021	2020
	RO'000	RO'000
(Amount of Total Net Income (before distribution of profit to unrestricted IAH	64,727	54,752
Total Amount of Assets	1,404,823	1,206,259
(Return on Assets (ROA	4.61%	4.54%

d) Return on Equity (ROE)

	2021	2020
	RO'000	RO'000
(Amount of total net income (after distribution of profit to IAH	**35,489**	31,383
Amount of shareholders' equity	**239,839**	159,688
(Return on Equity (ROE	**14.80%**	19.65%

e) Ratios of profit distributed to PSIA by type of IAH

As of reporting date the Bank has return on Unrestricted Investment Accountholder and distributed profit amounting RO 6,814 thousands (FY-2020: RO 7,603 thousands) during the period to Investment Accountholders.

f) Ratios of financing to PSIA by type of IAH

As of reporting date, all jointly financing is funded by comingled pool which includes funds from Unrestricted Investment Accountholder (including Mudaraba and Wakala) and Shareholders.

Gross Financing by type of contract	2021		2020	
	RO'000	%	RO'000	%
Sales Receivables and Other Receivables	**265,748**	**22.94%**	239,330	23.22%
Ijarah Muntahia Bittamleek	**293,175**	**25.31%**	305,239	29.62%
Musharaka financing	**268,072**	**23.14%**	181,257	17.59%
Wakala Bil Isthimaar	**331,511**	**28.62%**	304,714	29.57%
Total Financing	**1,158,506**	**100.00%**	1,030,540	100.00%

6. Unrestricted Mudaraba Investment Accounts

6.1 Qualitative Disclosure

- There is no major change in the investment strategies that affect the investment accounts to the reporting date.
- The Bank has a single pool of comingled assets where the funds of investment accountholders are invested and income is allocated to such accounts.

  The investment profits distributed between equity shareholders and unrestricted investment accountholders is as follows:

	2021	2020
	Percentage	Percentage
Unrestricted investment accounts share	**50%**	50%
Mudarib share	**50%**	50%

- The investment risk reserve at Zero percent (2020: ZERO percent) is deducted from customer's share after allocating the Mudarib share of profit. The profit equalization reserve is deducted from total revenue before allocating the Mudarib share based on ALCO decisions.
- The Bank does not charge Investment Accountholders for operating expenses incurred.

6.2 Quantitative Disclosure

a) Total amount of unrestricted IAH funds with respect category

Account type	2021	2020
	RO'000	RO'000
Saving account	266,500	273,775
Investment accounts:		
One month	22	83
Three months	638	729
Six months	1,220	1,854
Nine months	225	246
One year	30,249	24,386
One year and a half	3,053	3,571
Two years	37,782	57,488
Three years	422	332
Four years	171	113
Five years	1,247	864
More than five years	5,136	2,297
	346,665	365,738

b) Share of profits earned by unrestricted IAH, before transfers to or from reserves (amount and as a percentage of funds invested)

	2021	2020
	RO'000	RO'000
Share of profits	6,814	7,603
funds invested	346,665	365,738
Ratio	1.97%	2.08%

c) Share of profits paid out to unrestricted IAH, after transfers to or from reserves (amount and as a percentage of funds invested)

	2021	2020
	RO'000	RO'000
Share of profits	6,814	7,603
funds invested	346,665	365,738
Ratio	1.97%	2.08%

d) Movements on PER and IRR during the year

During the reporting year the Bank utilized RO Zero (Dec-20: Zero) from PER. However, the total amount apportioned from the income distributable to equity of unrestricted investment accountholders amounted to RO Zero (Dec 2020: RO Zero).

During the reporting year RO 266 Thousands (2020: 225 thousands) utilized in IRR. However, the total amount apportioned from the income distributable to equity of unrestricted investment accountholders amounted to RO Zero (Dec 2020: Zero).

Following is the movement of IRR and PER:

	2021		2020	
	RO'000		RO'000	
	PER	IRR	PER	IRR
Beginning Balance at the beginning of the year	-	355	-	580
Additions	-	-	-	-
Transferred	-	(266)	-	(225)
Balance at the end of the year	-	89	-	355

e) Disclosure of the utilization of PER and/or IRR during the period

During the period Zero PER (2020: RO Zero) and RO 266 thousand IRR (2020: 225 thousand) utilized.

f) Profits earned and profits paid out over the past three to five years (amounts and as a percentage of funds invested)

	2021	2020	2019	2018	2017
	RO'000	RO'000	RO'000	RO'000	RO'000
Profit Earned	**64,727**	54,752	47,379	37,968	27,956
Profit Distributed	**6,814**	7,603	7,359	7,679	4,197
Funds Invested	**346,665**	365,738	310,071	322,851	227,777
Return as % of Funds Invested	**1.97%**	2.08%	2.37%	2.37%	1.84%

g) Amount of total administrative expenses charged to unrestricted IAH

As per Bank's policy, the administration expenses are only charged on the Bank expenses.

h) Average declared rate of return or profit rate on unrestricted PSIA by maturity (1-month, 3-month, 6-month, 9-month, 12-months, 18-months and 24 months)

Account type	Participation factor		2021 average rate of return	2020 average rate of return
	RO	USD	RO	RO
Saving account	20% - 80%	15% - 30%	**0.98%**	1.02%
One month tenure	46% - 50%	23%-25%	**1.35%**	1.40%
Three months tenure	51% - 55%	25.5% - 27.5%	**1.53%**	1.53%
Six months tenure	61% - 68%	30.5% - 34%	**1.90%**	1.88%
Nine months tenure	66% - 73%	33% - 36.5%	**2.05%**	2.02%
One year tenure	71% - 78%	35.5% - 39%	**2.37%**	2.33%
One year and a half tenure	78.5% - 85%	-	**3.21%**	3.21%
Two years tenure and above	79.5% - 87%	-	**3.69%**	3.69%

i) Changes in asset allocation in the last six months

There are no significant changes in the last six months of reporting date.

j) Off-balance sheet exposures arising from investment decisions, such as commitments and contingencies

	2021	2020
Off-balance sheet items	RO'000	RO'000
Financial guarantee	**111,037**	109,311
Financial letter of credits	**120,482**	115,048
Acceptances	**3,253**	880
Bills for collection	**573**	513
Commitments	**160,644**	110,834
Total	**395,989**	336,586

k) Disclosure of limits imposed on the amount that can be invested in any one type of asset

The Bank does not have any restricted Investment Account as of reporting date, as such there are no limits imposed to be invested in any type of asset other than limits set in Bank's policy and CBO regulations.

7. Unrestricted Wakala Investment Accounts

7.1 Qualitative Disclosure

- There is no major change in the investment strategies that affect the investment accounts to the reporting date.
- The Bank has a single pool of comingled assets where the funds of investment accountholders are invested and income from which is allocated to such accounts according to the nature of the agreement.

7.2 Quantitative Disclosure

a) **Computation of Pool income is as follows:**

Item RO '000	2021	2020
Pool Income from Financing	**59,924**	50,848
Income from Investments	**4,803**	3,904
Total Pool Income	**64,727**	54,752
	-	-
Profit Equalization Reserve	-	-
Investment risk reserve	-	-
	-	-
Pool Income	**64,727**	54,752
Mudarib fee	**(6,998)**	(7,434)
Movement to or from PER/IRR	-	-
Total amount paid to IAH Mudaraba	**(6,814)**	(7,603)
Total amount attributable to shareholders pool including Wakala	**50,914**	39,715

8. Restricted Investment Accounts

The Bank does not have Restricted Investment Accounts product as of reporting date.

9. Retail Investor-Oriented Disclosures for Investment Accounts

The Bank offers Unrestricted Investment Accounts in OMR and USD only and maturity periods ranging from 1 month, 3 months, 6 months, 9 months, 12 months, 18 months and 24 months based on fully Sharia-compliant concept of Mudaraba. Profit is paid with a payout frequency of Monthly or Quarterly.

Following is the Product Structure of the Unrestricted Mudaraba Investment Account

9.1 Product Structure

Key Definitions and Concepts

Mudaraba – is a form of partnership where one party provides capital and the second party provides expertise and management skills. First party is referred to as Rab-ul-Maal (Investor) and the second party is referred to as the Mudarib (Investment Manager). Any profits accrued out of the joint business are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Rab-ul-Maal (Investor) except for losses arising from the negligence of Mudarib.

Mudarib – is the entrepreneur or investment manager in a Mudaraba, the Mudarib manages the investor's funds through a common pool of investments called Mudaraba Pool in return for a share of profits through Sharia compliant investments.

Rab-ul-Maal – is the provider of the capital or investor in an Islamic contract such as Mudaraba.

Structure of the Mudaraba Investment Account Product

The Bank's Mudaraba Investment Account product will be based on the Islamic contract of Mudaraba.

In case of Mudaraba Investment Account under Mudaraba arrangement, the customer becomes an Investor (Rab-ul-Maal), and the Bank becomes the Manager (Mudarib) of the funds invested by the customers. Besides acting as Mudarib, the Bank can also invest a share of its equity and other funds that the Bank did not receive on Mudaraba basis in the Mudaraba Pool.

For the Bank's funds invested in the joint Mudaraba pool, the Bank will become a partner of the customer. The Bank will accept funds from Mudaraba Investment Accountholders under a Mudaraba agreement and allocate the funds received from the customers, along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Sharia compliant investments opportunities.

The profit earned from the investment and financing activities, using funds from the unrestricted joint investment pool shall be distributed between the Depositors (Investors) and the Bank based on the Profit Distribution Methodology as approved by the Sharia Supervisory Board (SSB). There is no sharing of profits from the Bank's fee-based banking.

The Bank does not guarantee the Investment amount to the Mudaraba Investment Accountholders, and in case of a loss from the investment and financing activities; the loss shall be borne by the customers in proportion of their respective share in the investment pool. Customer's share of loss shall be deducted from the customer's investment amount except for losses arising from the negligence of Mudarib (the Bank)

All Mudaraba Investment Accounts shall be assigned weightages, based on the features of the Mudaraba Investment Account such as amount, currency, period of investment, profit payment options and other applicable features for the purpose of the profit calculation, in accordance with the Sharia rulings issued by the Sharia Supervisory Board (SSB)

The pooled funds will be subjected to deductions for all direct expenses and fees incurred to generate the assets in the specific pool.

The Bank will deduct its Mudarib Share from net profit after deducting its share as fund provider "Rab-ul-Mal".

The Bank may change the Mudarib Share and weightages for calculation of profit from time to time.

In case of loss, Mudaraba Investment Accountholders will suffer the loss exactly according to the ratio of their investment; and in case of profit, the profit will be distributed on the basis of the share of investment in the investment pool on pre agreed terms

The minimum balance criterion for Mudaraba Investment Account is essential as a balance requirement to participate in the Mudaraba pool. Once the Investment Amount has been invested, Profit is calculated on monthly basis on the Investment amount of the customer and is payable as per the selected profit payout option by the customer (monthly or quarterly). The Mudarib share ratio is disclosed on Bank's website for information to the customers.

In the event the Rab-ul-Mal wishes to terminate the Investment prior to the agreed Investment Maturity Date, the Rab-ul-Mal shall notify in writing to the Mudarib. Mudarib would be entitled to apply the declared profit rates of the nearest corresponding period for the actual investment period completed, provided a minimum one month of investment has been completed to be eligible for profit payment. Deduction from Principal amount is allowed in case profit amount already paid to the customer (in case of profit payout option other than on maturity) is higher than the applicable declared profit rates for the actual completed investment period.

The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:

Profit Equalization Reserve (PER)

This is to secure suitable and competitive return to the investors in case there are certain extra ordinary circumstances, depressing the return, which were un-anticipated by the investors. The disposition of the reserve amount will take place with the prior approval of the Sharia Board. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the investors with the approval of Sharia Board. This reserve only applies to Mudaraba accounts. In case the rate of return to the investors in a certain profit distribution period is substantially higher than the market rates, the Bank's Management may decide to deduct, after taking approval from ALCO, after deducting the profit share of the investment manager as Mudarib and Rab Al Maal, a portion of the common pool share of profit and transfer the same to the Profit Equalization Reserve (PER) up to a maximum limit of 60% of the increased value. In addition, transfer amount from/to PER and IRR subject to Asset Liability Committee (ALCO) approval.

Investment Risk Reserve (IRR)

This reserve is created from the investors' share of profit out of the Net Profit as per relevant guidelines (AAOIFI and/or CBO), post distribution of Mudarib share to ensure certain level of cushion for the investment portfolio. The available balance in the reserve account shall be invested in the Common Pool and the profit earned by investing such balance will be added to the reserve account. IRR provides funds for unexpected and uncertain events takes place resulting in a decline in the value of the investments. This decline in value may be as a result of losses on financing or/and general reserves of the bank (as required by regulation). The disposition of the reserve amount will take place with the prior approval of the Sharia Board. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the investors with the approval of Sharia Board.

The Bank's ALCO decides in advance on the investment and asset allocation for IAH funds, including, with particular reference to unrestricted IAHs, the commingling of their funds with other funds managed by the Bank, the balance between shareholders' and IAH interests in terms of allocating investment funds and the risk-return characteristics of investments.

The Bank calculates the profit of the Mudaraba pool every month. Net Profit of the pool (after deduction of the direct costs/expenses attributable to the common pool) will be distributed amongst the investors and the shareholders, according to the following formula:

- o (Average Investment amount x Aggregate weightages given to the shareholders and investors) for each category of investors.
- o This aggregate weightage depends on: Amount and Profit Payout Frequency.

Then the Mudarib's fee is deducted from each category of the investors' share of profit, giving them the Net Profit.

Losses arising from receivables, financing and investment assets that started and ended in the same year will be compensated as follows:

- Will be covered from the profits of the same year.
- If losses exceeded profits in the same year, they will be covered from Investment Risk Reserve.
- If there is no sufficient fund available in Investment Risk Reserve, the losses will be covered directly from investor funds "Rab ul Mal share".

Losses arising from receivables, financing and investment assets that initiated and continued from preceding years will be compensated as follows:

- Will be covered from the Investment Risk Reserve.
- If there is no sufficient fund available in Investment Risk Reserve, they will be covered from current revenues.
- If the current revenues are not sufficient, the losses will be covered directly from investors' funds "Rabb ul Mal share".

In addition to the above, in all cases the shareholders may forego their share of profit or part of their equity in favor of the investors to cover such losses.

10. Risk Management, Risk Exposures and Risk Mitigation

10.1 Qualitative Disclosure

- The Bank like all other major financial service organizations is facing increasing demands to better understand its risks, both from management and from external stakeholders. Factors such as the global pace of change, resource constraints, product complexity and a growing demand for transparency, present a compelling case for stronger management of risk.
- The Bank's Risk Management Framework enables the bank to manage bank-wide risks with the objective of maximizing returns while adhering to the risk appetite. The Bank uses a three lines of defense model to support its approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities.
- The three lines of defense are summarized below:
  - o Business units: required to ensure the effective management of risks within the scope of their direct organizational responsibilities. All employees within the business units are sufficiently trained and have access to appropriate tools to ensure risk-taking is controlled. Each business unit primarily owns the risk that it underwrites and is equally responsible for designing and implementing necessary controls to mitigate risks emanating from its activities.
  - o Risk control units: responsible for implementing policies and procedures, monitoring risks taken to ensure all risks are within the Bank's risk appetite. Appropriate controls are designed and implemented with adequate reporting in place to anticipate future risks and improve the level of preparedness across the management chain.
  - o Internal Audit: provides independent assurance and reports its findings to all relevant management and governance bodies, accountable line managers, relevant oversight function and committee(s) of the Board.
- The Bank's risk management and control principles are further supported by qualitative elements such as policies and authorities, and quantitative components including risk measurement methodologies and risk limits. In addition, the framework is dynamic and continuously adapted as Bank's businesses and the market environment evolve. It is based on:
  1. Strong managerial involvement throughout the entire organization, from the CEO down to operational field management teams;
  2. A firm structure of internal procedures and guidelines;

3. Permanent supervision by an independent bodies to monitor risks and to enforce rules and procedures; and
4. Continuous training that helps to foster a disciplined and constructive culture of risk management and control.

The overall objective of the Risk Management Framework is to improve shareholder value by optimizing risk and return. Specifically, Risk Management framework will:

1. Establish clear accountability or ownership of risk
2. Enable management to make decisions on a well-informed, risk-adjusted, and aggregated basis
3. Enable Bank to manage negative "what-if" scenarios
4. Improve understanding of interactions and inter-relationships between risks
5. Establish an "in control" status of significant risks

- Bank's Risk Management program is geared towards helping the organization to manage risk. A common risk framework and supporting processes aid in the comprehensive and consistent understanding and decision-making for risk. Through an integrated framework, the Bank intends to ingrain a strong and consistent risk culture across the organization.
- The Risk Management framework structure is summarized below:

The Risk Management framework has seven components: four that comprise the risk management decision phases and three that are support components.

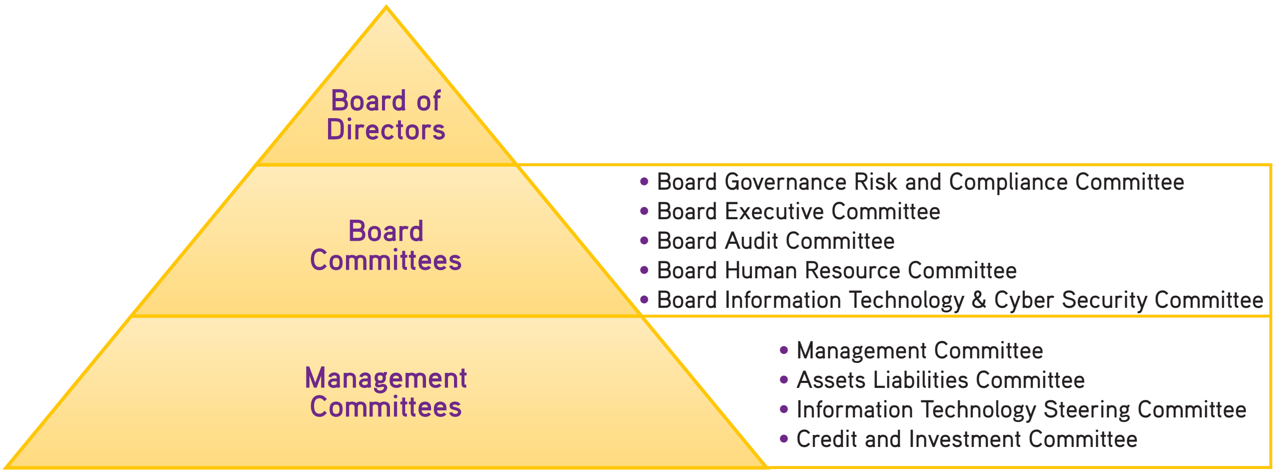
The four risk management decision phases are:

Policy	Top down direction providing definition for risk appetite, governance and risk management principles.
Plan	Setting of risk strategy and objectives for business areas.
Execute	The core risk process of risk identification, assessment, mitigation and measurement and reporting.
Evaluate	Monitoring the program and evaluation of performance.

The three support components represent the tools and environment. They are:

Infrastructure	The tools, technology, staffing and policy to support the risk management process.
Internal Environment	The internal culture of the Bank and the tools to create and reinforce it.
External Environment	Factors outside the Bank that may create risk that need to be monitored or against which the Bank's Business plan may need to be evaluated.

- The Bank's primary responsibility of managing Risk lies with Board of Directors (BOD) who has formed independent dedicated Board level committee, Board Governance Risk and Compliance Committee (BGRCC). The BGRCC is supported by independent Risk Management Group (RMG) that reports to BOD through BGRCC.
- Part of the risk governance, Senior Management Committees were established in the Bank to manage the overall level of each risk type. This includes: Assets and Liability Committee (ALCO), Credit and Investment Committee (CIC) and IT Steering Committee (ITSC).



- To Bank has policies for each risk type and accordingly risk is identified, assessed, monitored and reported to the Board and Senior Management. For this, a comprehensive integrated risk management report covering is generated on regular basis that highlights risk and performance of portfolio and is reported to Senior Management and Board with analysis for their review.
- The Bank has comprehensive Risk Management Policies approved by the Board for all the major risk types. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework in the Bank.
- The risk appetite statement identifies risk objectives, policies, strategies and risk governance both at the Board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses.
- Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents. In addition, the Bank is in the process of implementing various risk systems to help quantify the regulatory capital allocated to various portfolios.
- The Bank is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework summarizes the spirit behind Basel II and III which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities and segregation of duties, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.
- For the purpose of Capital Adequacy calculation, the exposure funded by IAH are taken completely in RWA and required capital as per CBO is allocated.

10.2 Quantitative Disclosure

(a) Disclosure of the range and measures of risks facing each restricted IAH fund, based on its specific investment policies

As of reporting date the Bank does not have restricted IAH funds.

(b) Disclosure of the treatment of assets financed by restricted IAH in the calculation of RWA for capital adequacy purposes

As of reporting date the Bank does not have restricted IAH funds.

(c) **Disclosure of the treatment of assets financed by unrestricted IAH in the calculation of RWA for capital adequacy purposes.**

As per the Islamic Banking Regulatory Framework (IBRF), 30% (alpha ratio) of assets financed by IAH are required to be deducted from Total Risk-Weighted Assets (RWA). However, the Bank has not taken into the consideration this and following conservative approach by not deducting the same from RWA.

(d) Composition of financing by type of contract as a percentage of total financing.

Financing (gross) by type of contract	2021		2020	
	RO'000	%	RO'000	%
Sales Receivable and Other Receivables	265,748	22.94%	239,330	23.22%
Ijarah Muntahia Bittamleek	293,175	25.31%	305,239	29.62%
Musharaka financing	268,072	23.14%	181,257	17.59%
Wakala Bil Isthimaar	331,511	28.62%	304,714	29.57%
Total Net Financing	1,158,506	100.00%	1,030,540	100.00%

(e) Percentage of financing for each category of counterparty to total financing

	2021 Gross Financing		2020 Gross Financing	
	RO'000	%	RO'000	%
Personal	476,409	46.53%	440,481	46.53%
Small Medium Enterprises	31,036	1.84%	28,769	1.84%
Corporate	651,061	51.62%	561,290	51.63%
Government	-	0.00%	-	0.00%
Total	1,158,506	100.00%	1,030,540	100.00%

(f) Disclosure of the carrying amount of any assets pledged as collateral (excluding amounts pledged to the Central Bank) and the terms and conditions relating to each pledge.

As of reporting date, the Bank does not have any secured borrowing where Bank has pledge collateral to counterparty.

(g) The amount of any guarantees or pledges given by the Licensee and the conditions attached to those guarantees or pledges.

The Bank issued Performance, Advance Payment and Shipping Guarantee amounting RO 111,037 thousands (Dec 2020: RO 109,311 thousands) as of reporting date.

11. Credit Risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from potential that a customer or counterparty's willingness to meet an obligation or its ability to meet such an obligation is impaired, resulting in an economic loss to the Bank.

- Credit risk is primarily managed as per BOD approved Credit risk policy where proper assessment of inherent risks is carried out in credit proposals to ensure a balanced portfolio of customers meeting the risk appetite of the Bank. The Bank also ensures dealing with customers of good credit standing, a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the accounts.
- Credit risk management, administration and control are carried out by risk management teams, which report to the Board Governance, Risk and Compliance Committee. The Bank has well defined credit structures under which credit committees, comprising of senior officers with requisite banking background, critically scrutinize and sanction financing up to the delegated authority. The Bank's exposure to credit is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. All credit decisions are taken as per the Bank's risk policies and CBO regulations and are monitored accordingly.
- The Bank relies on external ratings for rated corporate customers and counterparties. The Bank uses CBO approved External Credit Assessment Institutions I.e. Standard & Poor's, Fitch and Moody's to provide ratings for such counterparties. In case of unrated counterparties, the Bank assesses the credit risk based on the internal rating system/mechanism.
- A financing that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing exposure that is overdue for 90 days or more is considered impaired.
- The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.
- The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 month ECL).
- The 12 month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
- Both LTECLs and 12m 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 period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.
- For all Past Due receivables and Impaired Financial assets, Expected Credit Loss (ECL) impairment is created and for Performing Financing Assets, ECL is created on forward looking approach in accordance with IFRS 9 standards. To assess requirements of ECL, financial assets are divided into three staging criteria i.e. Stage 1, Stage 2 and Stage 3. Where Stage 1 is for 'performing', Stage 2 is for 'under-performing' where credit risk has increased significantly since inception; and Stage 3 is for 'non-performing'.

11.1 Quantitative Disclosure

(a) Total Gross Credit and Average Gross Credit

	2021 Total Gross Credit	2021 Average Gross Credit	2020 Total Gross Credit	2020 Average Gross Credit
	RO'000	RO'000	RO'000	RO'000
Sales Receivables and Other Receivables	265,748	252,539	239,330	240,519
Ijarah Muntahia Bittamleek	293,175	299,207	305,239	312,099
Musharaka financing	268,072	224,665	181,257	150,689
Wakala Bil Istethmar	331,511	318,113	304,714	245,533
Investments in Sukuk & securities	129,040	115,625	102,210	85,272
Interbank Wakala Placements	32,906	22,959	13,012	16,903
Total	1,320,452	1,233,107	1,145,762	1,051,015

The breakup of Investment in Sukuk & securities and Interbank Wakala placements with respect to external ratings are given below:

External Ratings	2021 Investment in Sukuk and Securities	2021 Interbank Wakala Placements and Due from Banks	2020 Investment in Sukuk and Securities	2020 Interbank Wakala Placements and Due from Banks
	RO'000	RO'000	RO'000	RO'000
AAA	30,800	-	16,555	-
AA+,AA-AA	-	10	-	13
A+, A, A-	1,158	5,697	-	9,745
BBB+, BBB, BBB-	-	29	-	160
BB+, BB, BB-	83,784	27,027	76,168	1,290
B+, B, B-	4,659	129	802	1,801
Unrated	5,915	14	5,960	2
Total	126,316	32,906	99,485	13,012

(b) Exposure in terms of geographical area

	Assets			Liabilities		
	Gross due from banks and Interbank Wakala investment	Gross financing	Gross investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
2021	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	27,000	1,158,506	90,500	1,109,383	19,250	361,874
Other GCC countries	3,179	-	7,342	-	1,271	18,956
Europe and North America	2,640	-	398	-	-	12,064
Africa and Asia	87	-	30,800	-	6	3,095
Total	32,906	1,158,506	129,040	1,109,383	20,527	395,989

	Assets			Liabilities		
	Gross due from banks and Interbank Wakala investment	Gross financing	Gross investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
2020	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	-	1,030,540	82,185	924,208	66,800	309,715
Other GCC countries	1,705	-	3,072	-	19,250	9,824
Europe and North America	11,244	-	398	-	-	12,346
Africa and Asia	63	-	16,555	-	5,783	4,701
Total	13,012	1,030,540	102,210	924,208	91,833	336,586

(c) Customer concentrations

2021	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross Financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	476,409	-	476,038	-	-
Corporate	32,906	682,097	8,932	110,640	20,527	306,459
Government	-	-	120,108	522,705	-	89,530
Total	32,906	1,158,506	129,040	1,109,383	20,527	395,989

2020	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross Financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	440,481	-	414,230	-	81,718
Corporate	13,012	590,059	8,685	131,986	91,833	241,797
Government	-	-	93,525	377,992	-	94,789
Total	13,012	1,030,540	102,210	924,208	91,833	336,586

(d) Industry concentrations

2021	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	476,409	-	476,038	-	-
Construction	-	103,116	-	23,954	-	130,585
Manufacturing	-	78,771	-	3,662	-	-
Financial services	32,906	-	-	-	20,527	-
Government	-	-	120,108	522,705	-	89,530
Other services	-	288,331	-	17,772	-	84,742
Others	-	211,879	8,932	65,252	-	91,132
	32,906	1,158,506	129,040	1,109,383	20,527	395,989

2020	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	440,481	-	414,230	-	-
Construction	-	105,206	-	22,862	-	110,596
Manufacturing	-	84,214	-	8,245	-	17,942
Financial services	13,012	-	-	-	91,833	-
Government	-	-	93,525	377,992	-	94,789
Other services	-	216,944	-	15,568	-	70,413
Others	-	183,695	8,685	85,311	-	42,846
	13,012	1,030,540	102,210	924,208	91,833	336,586

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

2021	Due from banks and interbank Wakala	Gross Sales receivables and other receivables	Gross Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Construction	-	25,340	2,926	10,433	64,417	-	103,116	130,585
Electricity, gas and water	-	17,076	245	12,383	61,528	-	91,232	37,465
Financial institutions	32,906	-	-	-	-	-	32,906	-
Services	-	18,016	3,370	36,188	139,525	-	197,099	47,278
Personal financing	-	142,253	239,951	94,205	-	-	476,409	-
Government	-	-	-	-	-	120,108	120,108	89,529
Non-resident financing	-	-	-	-	-	-	-	-
Others	-	63,063	46,683	114,863	66,041	8,932	299,582	91,132
Total	32,906	265,748	293,175	268,072	331,511	129,040	1,320,452	395,989

2020	Due from banks and interbank Wakala	Gross Sales receivables and other receivables	Gross Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Construction	-	17,270	3,627	9,097	75,212	-	105,206	110,596
Electricity, gas and water	-	14,148	278	14,856	62,989	-	92,271	27,042
Financial institutions	13,012	-	-	-	-	-	13,012	-
Services	-	21,662	3,928	17,830	81,253	-	124,673	43,371
Personal financing	-	130,168	259,867	50,446	-	-	440,481	-
Government	-	-	-	-	-	93,525	93,525	94,788
Non-resident financing	-	-	-	-	-	-	-	-
Others	-	56,082	37,539	89,028	85,260	8,685	276,348	60,789
Total	13,012	239,330	305,239	181,257	304,714	102,210	1,145,516	336,586

(f) Residual contractual maturities of the portfolio by major types of Islamic financing assets:

2021	Gross due from banks and interbank Wakala	Gross sales receivables and other receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Gross investment in Sukuk & securities	Total	Off balance sheet exposures
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Up to 1 month	32,906	13,066	1,061	407	34,719	70,873	153,032	16,531
1 to 3 months	-	30,029	2,684	3,567	52,191	-	88,471	22,860
3 to 6 months	-	33,527	3,894	4,769	51,452	6,268	99,910	101,354
6 to 9 months	-	19,058	4,048	5,577	12,721	-	41,404	10,082
9 to 12 months	-	15,705	4,270	5,296	8,448	2,176	35,895	221,765
1 to 3 years	-	95,396	49,068	67,680	101,866	202	314,212	19,356
3 to 5 years	-	35,640	50,407	62,201	22,862	26,132	197,242	3,363
Over 5 years	-	23,327	177,743	118,575	47,252	23,389	390,286	678
	32,906	265,748	293,175	268,072	331,511	129,040	1,320,452	395,989

2020	Gross due from banks and interbank Wakala	Gross sales receivables and other receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Gross investment in Sukuk & securities	Total	Off balance sheet exposures
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Up to 1 month	13,012	8,544	1,274	159	11,671	17,207	51,867	102,299
1 to 3 months	-	21,381	2,577	3,812	53,254	-	81,024	21,191
3 to 6 months	-	25,972	3,951	4,091	55,816	4,471	94,301	18,686
6 to 9 months	-	21,138	3,988	4,833	32,200	-	62,159	7,195
9 to 12 months	-	18,016	4,065	4,531	13,508	2,155	42,275	66,529
1 to 3 years	-	92,301	48,447	51,581	87,379	2,002	281,710	116,800
3 to 5 years	-	35,136	45,878	55,442	39,194	53,375	229,025	1,328
Over 5 years	-	16,842	195,059	56,808	11,692	23,000	303,401	2,558
	13,012	239,330	305,239	181,257	304,714	102,210	1,145,762	336,586

(g) Total gross exposure and average gross exposure to equity based financing structures by type of financing contract during the previous year and over the period.

As of reporting date, the Bank does not have any equity based financing.

(h) Distribution of impaired financing, past due and not past due financing by type of industry:

A)	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
2021	RO'000	RO'000	RO'000	RO'000
Personal financing	476,409	623	430	1,126
Non-resident corporate financing	-	-	-	-
Resident corporate financing	682,097	13,069	6,761	14,266
	1,158,506	13,692	7,191	15,392

B)	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
2020	RO'000	RO'000	RO'000	RO'000
Personal financing	439,954	527	335	1,054
Non-resident corporate financing	-	-	-	-
Resident corporate financing	577,300	12,759	3,848	10,741
	1,017,254	13,286	4,183	11,795

A)	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
2021	RO'000	RO'000	RO'000	RO'000
Construction	103,116	438	226	3,905
Electricity, gas and water	91,232	0	-	26
Financial institutions	-	-		-
Services	197,099	-		559
Personal financing	476,409	623	430	1,126
Government	-	-		-
Non-resident financing	-	-		-
Others	290,650	12,631	6,535	9,777
	1,158,506	13,692	7,191	15,392

B)	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
2020	RO'000	RO'000	RO'000	RO'000
Construction	105,206	-	-	5,226
Electricity, gas and water	92,271	-	-	7
Financial institutions	-	-		-
Services	119,673	5,000	1,654	2,202
Personal financing	439,954	527	335	1,054
Government	-	-		-
Non-resident financing	-	-	-	-
Others	260,143	7,766	2,194	3,306
	1,017,254	13,293	4,183	11,795

(i) **Distribution of impaired financing and past due financing by geographical distribution:**

2021	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	**1,158,506**	**13,692**	**7,191**	**16,487**
Other countries	**-**	**-**	**-**	**-**
Total	**1,158,506**	**13,692**	**7,191**	**16,487**

2020	Performing financing	Non-performing financing	Impairment losses under stage III held	Impairment losses under stage I and II Held
	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	1,017,273	13,286	4,183	11,795
Other countries	-	-	-	-
Total	1,017,273	13,286	4,183	11,795

(j) **Distribution of provision with type of Islamic financing asset:**

	2021			
	Stage 1	Stage 2	Stage 3	Total
Total of performing and Non-performing financial assets				
Total gross financing amount including off-balance sheet	**1,069,350**	**443,736**	**14,121**	**1,527,207**
Total ECL on Financing	**(2,888)**	**(13,789)**	**(7,190)**	**(23,867)**
Total Gross Investments	**124,313**	**2,002**	**-**	**126,315**
Total ECL on Investments	**(696)**	**(20)**	**-**	**(716)**
Total Gross Interbank	**27,000**	**-**	**-**	**27,000**
Total ECL on Interbank	**(214)**	**-**	**-**	**(214)**
Due from Banks, Central Banks and other financial assets	**5,906**	**-**	**-**	**5,906**
ECL on Due from Banks, Central Banks and other financial assets	**(55)**	**-**	**-**	**(55)**
Carrying amount	**1,222,716**	**431,929**	**6,931**	**1,661,576**

	2020			
	Stage 1	Stage 2	Stage 3	Total
Total of performing and Non-performing financial assets				
Total gross financing amount including off-balance sheet	946,161	381,267	13,293	1,340,721
Total ECL on Financing	(3,481)	(9,849)	(4,185)	(17,515)
Total Gross Investments	97,482	2,002	-	99,484
Total ECL on Investments	(168)	(23)	-	(191)
Total Gross Interbank	-	-	-	-
Total ECL on Interbank	-	-	-	-
Due from Banks, Central Banks and other financial assets	13,012	-	-	13,012
ECL on Due from Banks, Central Banks and other financial assets	(16)	-	-	(16)
Carrying amount	1,052,990	373,397	9,108	1,435,495

(k) Change in loss provisions during the financial year

	2021	2020
	RO'000	RO'000
Balance at 1 January	**17,722**	11,022
Impairment losses / (reversals) during the year for:		
Sales and other receivables	**2,025**	1,203
Ijara Muntahia Bittamleek	**231**	509
Wakala Bil Istethmar	**1,249**	3,342
Musharaka financing	**3,089**	1,143
Investments	**525**	(45)
Due from banks	**39**	4
Inter-bank Wakala investments	**214**	(6)
Non-funded facilities	**(242)**	550
Total impairment losses	**7,130**	6,700
Balance at 31 December	**24,852**	17,722

(l) Penalty imposed on customers for default, and the disposition of any monies received as penalty

During the year, RO 17 thousands (Dec 2020: RO 38 thousands) penalty is imposed to customer for delayed payment and RO 17 thousands (2020: RO 38 thousands) has been transferred to organizations which are registered with the Ministry of Awqaf and Religious affairs, namely Zakat Seeb Committee, Oman Charitable Organization and Oman Association of the Care of Holy Quran.

12. Credit Risk Mitigation

- Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate credit risks that the Bank is exposed to. Credit risk mitigants reduces the credit risk by allowing the Bank to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

12.1 Qualitative Disclosure

- The Bank only considers Sharia approved collaterals and guarantees to mitigate credit risk. Assets offered by customer must meet the following criteria to be acceptable as collateral:
  - Assets must be maintaining their value, at the level prevalent at inception, until maturity of the facility approved;
  - Such assets should be easily convertible into cash, if required;
  - There should be a reasonable market for the assets; and
  - The Bank should be able to enforce its right over the assets if necessary

For assets financed under Ijarah Muntahiya Bittamleek, the underlying asset is used to mitigate the default risk (Loss Given Default).

- The Bank accepts Hamish Jiddiyyah, Urbun, Profit Sharing Investment Accounts, pledged assets, Sukuk (rated/unrated), third party guarantees (by sovereigns, banks, corporate entities and High net-worth Individuals) as risk mitigant.

- o Where eligible collaterals are available against facilities, the Bank takes independent valuation by approved valuators only and ensures that the assets held as collateral meet the criteria mentioned above. The Bank as per the CBO and Basel guidelines takes the value of collateral after applying appropriate haircut before assigning provisions. In cases, whenever the bank acquires/disposes assets as a last resort on fair market value, the decision is on case to case basis to acquire or not for its operations.
- o The Bank considers guarantees and if the risk profile/weight of the guarantor is better than the counterparty then risk weight is applied based on the rating of guarantor.
- o Due to the nature of Islamic banking in which underlying asset must be tangible and acceptable for purpose of transaction structure which has resulted in increased concentration on specific asset/sector type i.e. Real Estate. However, the Bank has adopted a sound and prudent portfolio management and control practices that involve the minimization of concentration risk by developing and implementing policies and procedures to ensure the diversification of the portfolio.

12.2 Quantitative Disclosure

(a) Disclosure of the total carrying amounts by type of collateral of any assets held as collateral by the Licensee (including any haircuts) and the terms and conditions relating to the pledges

	2021	2020
	RO'000	RO'000
Real Estate	504,244	628,846
Movable Assets	138,260	83,417
Total	642,504	712,263

The value of the collateral is adjusted by relevant haircut as mandated by IBRF. The bank has considered collaterals for the purpose of Expected Credit Loss reserve computation after applying relevant haircut, however for the purpose for calculation of Risk-Weighted assets no collateral is considered except cash.

(b) Disclosure of the carrying amount of assets owned and leased under Ijara Muntahia Bittamleek

	2021	2020
	RO'000	RO'000
Ijarah Muntahia Bittamleek	293,175	305,239

13. Liquidity risk

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

13.1 Qualitative Disclosure

- Bank's Liquidity Risk Management is governed by the Liquidity Risk Management Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Liquidity risk policy incorporates contingency funding plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations.
- The Bank monitors its liquidity risk of funding related to current account, saving accounts, investment accountholder on individual basis as well as on aggregate basis through cash flow approach and stock approach.
- Treasury department of the Bank and Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds through Sharia compliant financing and investment activities.
- The bank has already implemented Basel III standards for liquidity that includes Liquidity Coverage Ratio and Net Stable Funding Ratio. These ratios are used as an indicator to show the Bank's liquidity position to honor its short-term and long-term commitments.
- "Basel III" is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector.
- These measures aim to:
- o improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source

- o improve risk management and governance
- o strengthen banks' transparency and disclosures

13.2 Quantitative Disclosure

The related disclosure on Liquidity Risk is given below:

(a) Indicators of exposure to liquidity risk - short-term assets to short-term liabilities

	2021	2020
	RO'000	RO'000
Short-term Assets	597,900	434,300
Short-term Liabilities	637,073	530,363
Short-term Assets to Liabilities	93.85%	81.89%

(b) Indicators of exposure to liquidity risk - liquid assets ratio

	2021	2020
	RO'000	RO'000
Liquid Assets	172,003	133,772
Short-term Liabilities	637,073	530,363
Total Liabilities	1,164,334	1,046,571
Liquid Asset to Short-term Liabilities	27.00%	25.22%
Liquid Asset to Total Liabilities	14.77%	12.78%

(c) Maturity profile of assets and liabilities

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2021	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	59,848	5,120	4,199	13,343	7,518	90,028
Inter-bank Wakala and Due from banks	22,692	10,000	-	-	-	32,692
Financing to customers - net	48,445	177,929	71,494	475,645	350,413	1,123,926
Investment security	32,477	3,501	9,527	82,819	-	128,324
Investment in real estate	-	-	-	14,175	-	14,175
Intangible asset	-	-	-	-	3,327	3,327
Property and equipment	-	-	-	-	3,258	3,258
Other assets	71	1,041	433	3,146	4,402	9,093
Total assets	163,533	197,591	85,653	589,128	368,918	1,404,823
Customer accounts, Wakala and unrestricted accountholders	108,892	175,034	141,510	467,347	237,474	1,130,257
Other liabilities	-	3,214	13,668	9,478	8,278	34,638
Investment risk and profit equalization reserve	-	-	-	-	89	89
Owners' equity	-	-	-	-	239,839	239,839
Total liabilities, equity of unrestricted investment accountholders and owners' equity	108,892	178,248	155,178	476,825	485,680	1,404,823
Net gap	54,641	19,343	(69,525)	112,303	(116,762)	-
Cumulative net gap	54,641	73,984	4,459	116,762	-	-

31 December 2020	Due on demand and up to 30 days RO'000	More than 1month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
Cash and balances with Central Bank of Oman	67,443	-	-	-	500	67,943
Inter-bank Wakala and Due from banks	12,996	-	-	-	-	12,996
Financing to customers - net	20,902	166,251	98,023	439,217	263,765	988,158
Financial assets at fair value through equity	17,207	4,471	2,155	53,398	22,809	100,040
Financial assets at amortised cost	-	-	-	1,979	-	1,979
Investment in real estate	-	-	-	14,175	-	14,175
Intangible asset	-	-	-	-	2,264	2,264
Property and equipment	-	-	-	-	1,780	1,780
Other assets	184	1,057	764	7,128	7,791	16,924
Total assets	118,732	171,779	100,942	515,897	298,909	1,206,259
Interbank Wakala	58,338	8,470	-	25,025	-	91,833
Customer accounts, Wakala and unrestricted accountholders	81,809	138,426	166,648	347,143	190,180	924,206
Other liabilities	-	4,585	5,633	13,925	6,034	30,177
Investment risk and profit equalization reserve	-	-	-	-	355	355
Owners' equity	-	-	-	-	159,688	159,688
Total liabilities, equity of unrestricted investment accountholders and owners' equity	140,147	151,481	172,281	386,093	356,257	1,206,259
Net gap	(21,415)	20,298	(71,339)	129,804	(57,348)	-
Cumulative net gap	(21,415)	(1,117)	(72,456)	57,348	-	-

14. Market Risk

Market risk is the risk of loss due to unfavorable movements in market factors such as profit rates, exchange rates, and commodity and equity prices. The Bank's Market risks arise generally due to open positions in currency, holding common equity, and other products. All such instruments and transactions are exposed to general and specific market movements.

14.1 Qualitative Disclosure

- The Bank seeks to mitigate market risk by employing strategies that correlate rate and price movements of its earning asset and liabilities. The Bank has Assets and Liability Committee (ALCO) which monitors Market and Liquidity Risk on regular basis. The details of market risk faced by the bank are discussed in the following notes.

The principal categories of market risk faced by the Bank are set out below:

Profit Rate Risk

Profit rate risk is the risk that the Bank will incur a financial loss as a result of mismatch in the profit rate on the assets and balances from fund providers. The profit distribution is based on profit sharing agreements instead of guaranteed return to investment account holders. Therefore, the Bank is not subject to any significant profit rate risk.

However, the profit sharing arrangements will result in displaced commercial risk when the Bank's results do not allow the Bank to distribute profits in line with the market rates. In respect of monitoring the impact of profit rate changes on the earnings and economic value of the Bank, the Bank has developed suitable risk management tool that identify gaps based on the repricing of the assets and liabilities. The result of this sensitivity analysis is presented to Assets and Liability Committee to that necessary decision, if required can be taken for protect the interest of the Bank.

Foreign Exchange Risk

Forex risk is the risk that a bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position in an individual foreign currency.

The Bank has exposure in foreign currency. However, significant portion of the foreign currency exposure is in USD and GCC pegged currencies. In addition to this, the Bank has internal limits and mechanism for controlling foreign currency risk for unpegged currencies.

Commodity Price Risk

Commodity price risk is defined as the risk of losses in on- or off-balance sheet position arising from movements in market prices i.e. fluctuations in value in tradable or marketable commodities. The risk related to the current and future volatility of market values of specific assets (for example, the commodity price of Salam asset or the market value of Murabaha assets purchased to be delivered over a specific period).

The Bank however is not exposed to commodity market as the Bank whenever enter into any transaction or specific agreement, the commodity price risk is either hedged or the transaction is performed on spot basis so there is no fluctuation of market price from the moment bank takes an asset in possession and sells an asset to the buyer/customer.

Price Risk

Price Risk or Equity Investment Risk is risk to earnings or capital that results from adverse changes in the value of equity related portfolios of the Bank.

The Bank has investments in Sukuks and Securities. All the investments are marked-to-market on regular basis. All the investment is made after a careful due diligence after taking necessary approvals including from Sharia to ensure that investments are made as per Sharia standards. The day-to-day monitoring and management of investments is done by Treasury, Risk Management and Asset Liability Committee of the Bank. All strategic investments are regularly reviewed by Risk Management and Credit and Investment Committee of the Bank.

14.2 Quantitative Disclosure

(a) Breakdown of Market RWA	2021	2020
	RO'000	RO'000
Equity Position	-	-
Foreign Exchange Risk	73,476	5,105
Commodity Risk	-	-
Total	73,476	5,105

(b) Foreign Exchange Net Open Position to Capital

	2021	2020
Foreign Exchange Net Open Position to Capital	29.86%	3.29%

As of reporting date, the bank does not have any trading book instruments. Most of the exposure is in USD and OMR is pegged with USD therefore the sensitivity analyses are immaterial to be reported.

(c) Commodity Net Open Position to Capital

The Bank does not have any commodity available for sale as of reporting date.

(d) **Equity Net Open Position to Capital**

The Bank does not have any equity in its trading book as of reporting date.

(e) Total Amounts of assets subject to market risk by type of assets

The Bank does not have any investments/assets in Trading Book. Market Risk-Weighted assets only comprise Foreign Exchange position which is mentioned above in item (a).

(f) Measure of Value-at-risk or other sensitivity analyses for different types of market risk

As of reporting date, the bank does not have any trading book instruments. Majority of the exposure is in USD and other pegged currencies i.e. Saudi Riyal (SAR), Arab Emirates Dirham (AED), Bahrain Dinar (BHD). Since OMR is pegged with USD, therefore the sensitivity analyses are immaterial to be reported.

15. Operational risk

15.1 Qualitative Disclosure

Operational Risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromised, regulatory non-compliance, loss of key staff, and social and environmental impacts. It also includes the risk that arises from the bank's failure to comply with the Sharia rules and principles. Being an Islamic Bank, sharia non-compliance risk is managed by an independent function that ensures bank's adherence to the Sharia standards and rules.

- The Bank has developed operational risk management policy and all the critical controls are implemented at all levels for curtailing operational risk. Each division has processes and systems in place to address operational risks within their area are accordingly performance of the department is reviewed on regular basis. The Risk Appetite statement also sets a target for the Management related to Operational Risk and accordingly business plans, product programs are designed to minimize potential operational risk.
- The Bank has defined process for reporting and escalation of operational incidents that stores in the master database for tracking in future. Also, on an annual basis the potential high risk exposures are identified by each business and support function and accordingly controls are discussed/implemented to minimize risk exposures. The Bank's Sharia Compliance department checks independently the processes on regular basis to ensure there is no sharia related issue that could trigger operational loss to the Bank.
- As per the Bank's policy, operational risk is responsibility of all the staff members and all line managers are responsible for management of operational risk within their unit. Process and Control Improvement is a business as usual for the Bank, accordingly all the line managers are required to perform process and control improvement on regular/need basis to ensure the Bank is not taking any unnecessary risk in carrying out business activities.
- The Bank has well-defined Business Continuity Management policy which is approved by Board of Directors. During the year the Bank also conducted a drill at Head Office to see the Bank's readiness to attend to any major event that could result in major disruption to the Business. The Bank also conducted testing of critical functions at the temporary site established for this purpose, to continue critical transaction in case of any unforeseen events.
- During the reporting period, the Bank ensured continuity of business, and enhanced its IT infrastructure to support the Bank Business Continuity Plan and to address any contingency requirements. The Bank has also improved its e-channels capabilities by giving more features and options to customer, thereby encouraging customer to access banking facilities without visiting branches. To promote such activities, also waived transaction fees for certain period to benefit cutomers.
- Health and safety was ensured during the period by the Bank for both customers and staff; and necessary guidelines in this regard were issued on regular basis during the reporting period.

15.2 Quantitative Disclosure

(a) RWA Equivalent for Quantitative Operational Risk

- For the purpose of measuring capital charge, the Bank has adopted the Basic Indicator Approach under Basel II for Operational Risk. The approach requires the Bank to provide 15% of the average three years' gross annual income as capital charge for operational risk.

	2021	2020
	RO'000	RO'000
Net income from financing activities	60,354	51,266
Add: Net income from investment activities	4,933	4,035
Add: Fee income	6,244	5,514
Less: Investment Accountholders share of income	29,238	23,369
Add : Other Income	2,055	1,809
Total Revenues	44,348	39,255
Less: Exceptional and extraordinary income	-	-
Gross Income	44,348	39,255
Gross Income times of Alpha (15%)	6,652	5,888
Operational Risk-Weighted Assets 12.5x	83,153	73,603
Operational Risk-Weighted Assets (Average of last 3 Years)	72,887	62,106

b) Indicators for Operational risk exposures

	2021	2020
	RO'000	RO'000
• Gross Income taken in RWA calculation	**44,348**	39,255

- There is no Sharia non-compliance income recognized during the year and whenever such incident happens, the Bank's policy is to transfer such funds to charity.

16. Rate of Return Risk

Rate of Return Risk is the risk of deviations in earnings or economic value due to adverse movement of the yield curve. It is inherent primarily to the banking book mainly through financing and deposits portfolio.

16.1 Qualitative Disclosure

- The profit rate exposure of the Bank arises due to mismatches between contractual maturities or re-pricing of on- and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability Management Committee (ALCO) that reviews the profit rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.
- The sensitivity of the income statement is the effect of the assumed changes in profit rates on the earning for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December, 2021.

16.2 Quantitative

- Indicators Of Exposures To Rate Of Return Risk – Expected Payments/Receipts On Financing And Funding At Different Maturity

	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
31 December 2021	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	90,028	90,028
Inter-bank Wakala and Due from banks	17,000	10,000	-	-	-	5,692	32,692
Financing to customers – net	305,206	169,636	61,615	373,247	214,222	-	1,123,926
Investment Securities	32,441	3,501	6,839	82,819	-	2,724	128,324
Investment in real estate	-	-	-	-	-	14,175	14,175
Intangible asset	-	-	-	-	-	3,327	3,327
Property and equipment	-	-	-	-	-	3,258	3,258
Other assets	-	-	-	-	-	9,093	9,093
Total assets	354,647	183,137	68,454	456,066	214,222	127,647	1,404,823
Customer accounts, Wakala and unrestricted accountholders	65,396	99,433	73,200	477,777	180,189	234,262	1,130,257
Other liabilities	-	-	-	-	-	34,638	34,638
Investment risk and profit equalization reserve	-	-	-	-	89	-	89
Shareholders' equity	-	-	-	-	-	239,839	239,839
Total liabilities and shareholders' equity	65,396	99,433	73,200	477,777	180,278	508,089	1,404,823
On-balance sheet gap	289,251	83,704	(4,746)	(21,711)	33,944	(380,442)	-
Cumulative profit sensitivity gap	289,251	372,955	368,209	346,498	380,442	-	

2020	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	67,943	67,943
Inter-bank Wakala and Due from banks	-	-	-	-	-	12,996	12,996
Financing to customers – net	275,564	168,740	97,016	351,527	95,311	-	988,158
Financial assets at fair value through equity	17,150	721	246	53,207	23,000	5,716	100,040
Financial assets at amortized cost	-	-	-	1,979	-	-	1,979
Investment in real estate	-	-	-	-	-	14,175	14,175
Intangible asset	-	-	-	-	-	2,264	2,264
Property and equipment	-	-	-	-	-	1,780	1,780
Other assets	-	-	-	-	-	16,924	16,924
Total assets	292,714	169,461	97,262	406,713	118,311	121,798	1,206,259
Interbank Wakala	-	-	-	-	-	91,833	91,833
Customer accounts, Wakala and unrestricted accountholders	40,890	69,313	62,859	426,297	141,772	183,075	924,206
Other liabilities	-	-	-	-	-	30,177	30,177
Investment risk and profit equalisation reserve	-	-	-	-	355	-	355
Shareholders' equity	-	-	-	-	-	159,688	159,688
Total liabilities and shareholders' equity	40,890	69,313	62,859	426,297	142,127	464,773	1,206,259
On-balance sheet gap	251,824	100,148	34,403	(19,584)	(23,816)	(342,975)	-
Cumulative profit sensitivity gap	251,824	351,972	386,375	366,791	342,975	-	-

- Sensitivity Analysis of the Bank's Profits and The Rate of Return To Price Or Profit Rate Movements In The Market

Impact on earnings due to rate of return risk in the banking book

	2021	2020
	RO'000	RO'000
+200 bps	**6,465**	**4,965**
+100 bps	**3,232**	**2,483**
-200 bps	**(6,465)**	**(4,965)**
-100 bps	**(3,232)**	**(2,483)**

17. Displaced Commercial Risk

Displaced Commercial Risk (DCR) refers to the magnitude of risks that are transferred to shareholders in order to cushion the Profit Sharing Investment Account (PSIA) from bearing some or all of the risks to which they are contractually exposed in Mudaraba funding contracts. Under a Mudaraba (profit sharing and loss-bearing) contract, in principle, unrestricted PSIA are exposed to the aggregate impact of risks arising from the assets in which their funds are invested, but they benefit from the DCR assumed by the Bank. This risk-sharing is achieved by constituting and using various reserves such as Profit Equalization Reserve (PER), and by adjusting the Mudarib's (Bank as fund manager) profit share in order to smooth the returns payable to the IAH from exposure to the volatility of aggregate returns arising from banking risks, and thereby to enable payment of returns that are competitive in the marketplace.

17.1 Qualitative Disclosure

- The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:
- Profit Equalization Reserve (PER)

  PER comprises amounts appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of a PSIA portion and a shareholders' portion;
- Investment Risk Reserve (IRR)

  IRR comprises amounts appropriated out of the income of IAH after deduction of the Mudarib share of income, to meet any future losses on the investments financed by the PSIA.

The analysis of distribution of Mudaraba profit during the period is as follows:

Items	**2021** **RO'000**	2020 RO'000
Total distributable profits	64,727	54,752
Bank Share As " Mudarib and Rab ul Maal"	35,489	31,383
Depositors Share of profits	30,803	15,037
Bank Share As " Mudarib"	6,998	7,434
Net profit to be distributed to the depositors before IRR & PER	6,814	7,603
Investment Risk Reserve "IRR"	266	225
Profit Equalization Reserve "PER"	-	-
Net profit to be distributed to the depositors after IRR & PER	6,814	7,603

- During the period the Bank did not utilize from PER (2020: Zero) for the purpose of enhancing the returns to depositors
- The Bank is taking all the Risk-Weighted Assets funded by IAH for the purpose of arriving at Total Risk-Weighted Assets and capital requirement is calculated accordingly.

17.2 Quantitative Disclosures

Historical Rate of Return of unrestricted Investment Accountholder:

	2021	**2020**	**2019**	**2018**	**2017**
	RO'000	RO'000	RO'000	RO'000	RO'000
Profit Earned	**64,727**	54,752	47,379	37,968	27,956
Profit Distributed	**6,814**	7,603	7,359	7,679	4,197
Funds Invested	**346,665**	365,738	310,071	322,851	227,777
Return as % of Funds Invested	**1.97%**	2.08%	2.37%	2.38%	1.84%

18. Contract-Specific Risk

In each type of Islamic Financing asset is exposed to a varying mix of credit and market risk. This mix can also vary according to the stage of the contract. However, the product structure does not change the nature of risk at the stage of contract. Further

policy restricts undue exposure of any risk at any given time and all the contracts are in line with Sharia and regulatory guidelines. Accordingly, capital is required to be allocated for such risk exposures in line with IBRF.

18.1 Qualitative Disclosure

- As of reporting date financing assets only carries credit risk and accordingly capital is allocated as per the required regulations by CBO. The current product mix does not change the nature of risk according to the stage of contract.

18.2 Quantitative Disclosure

Disclosure of Capital Requirements according to different risk categories for each Sharia compliant financing contract

	2021			2020		
	Credit risk	Market risk	Risk-Weighted Assets	Credit risk	Market risk	Risk-Weighted Assets
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Ijarah Muntahia Bittamleek	16,953	-	138,394	18,328	-	149,616
Sales Receivable and Other Receivables	26,971	-	220,168	22,258	-	181,698
Wakala Bil Istethmar	55,886	-	456,210	61,110	-	498,857
Musharaka Financing	25,105		204,942	17,375		141,836
Letter of Guarantees	6,801	-	55,519	6,695	-	54,656
Letter of Credit	2,962	-	24,182	2,819	-	23,010
Acceptance and Bills for Collection (Wakala)	363	-	2,960	171	-	1,393
Total	135,041		1,102,375	128,755		1,051,065

19. General Disclosure from Corporate Governance

19.1 Qualitative Disclosure

- An important objective of these disclosures is to ensure transparency regarding Sharia compliance by the Bank and applicable reporting standard. As such all material information are published as soon as practicable while meeting the deadlines set by the disclosure requirements of the CBO and the Bank is compliant with the applicable financial reporting standards.
- Corporate Governance is the system of rules, practices and processes by which the Bank is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in the Bank. These include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining the Bank's objectives, it encompasses practically every sphere of management, from action plans, internal controls, performance measurement and corporate disclosure.
- The Capital Market Authority (CMA) Code of Corporate Governance for Public Listed Companies and the CBO guidelines as per the IBRF Corporate Governance of Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Bank Nizwa complies with all of their provisions. The CMA Code of Corporate Governance can be found at the www.cma.gov.om. Corporate Governance has also been defined more narrowly as the relationship of an entity to its shareholders or more broadly as its relationship to society.

The following disclosure summarizes disclosure of related party:

2021	Principal shareholders	Sharia'a Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Sales receivables and other receivables	159	56	147	362
Ijara Muntahia Bittamleek	395	68	1,451	1,914
Wakala Bil Istethmar	1,750	-	-	1,750
Musharaka Financing	3,011	109	264	3,384
Customers' accounts	5,699	3	250	5,952
Unrestricted investment accountholders / Customers' wakala	46,815	59	342	47,216
2020	**Principal shareholders**	**Sharia'a Board**	**Senior management**	**Total**
	RO'000	RO'000	RO'000	RO'000
Sales receivables and other receivables	8	62	174	244
Ijara Muntahia Bittamleek	424	72	1,557	2,053
Wakala Bil Istethmar	1,850	-	-	1,850
Musharaka Financing	1,351	-	-	1,351
Customers' accounts	237	6	163	406
Unrestricted investment accountholders / Customers' wakala	56,519	2	268	56,789

The income statement includes the following amounts in relation to transactions with related parties:

31 December 2021	Principal shareholders	Sharia Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Profit account	78	10	56	144
Operating expenses	-	-	-	-
Staff expense	-	-	2,025	2,025
Other expenses	87	63	-	150

31 December 2020	Principal shareholders	Sharia Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Profit account	121	7	37	165
Operating expenses	-	-	-	-
Staff expense	-	-	1,751	1,751
Other expenses	74	58	-	132

- During the year the Bank organized awareness programs through workshops, trainings on Islamic Banking and the Bank's products and services reaching a wide audience through virtual and physical platforms. The bank aims to bring Islamic finance awareness to communities across the Sultanate while providing in-depth information on all its products and services. The bank also used its social media platforms to reach a wider audience through campaigns focused on Islamic finance awareness and educational content. Participation in various conferences locally and regionally also provided an opportunity to share knowledge. Information related to Islamic Banking products that are currently being offered by the Bank is available on the website.
- The Bank maintains formal procedure on handling of customer complaints. The Bank has set up a call center equipped with the required resources to respond to customer calls in a professional manner. There is a form for registration of complaints on Bank's website along with the contact details for customer to register their complaints. A dedicated team for management of customer complaints and feedbacks on the Bank's products and services is already operational. The customer care and quality services team of the Bank takes active part in resolution of customers' complaint and considers customers' feedback on products and services. All complaints are logged in dedicated system acquired for customer complaints handling and investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints in minimum timeframe. Whenever this is not possible, the customer is contacted directly and timeframe for rectification of complaint is advised. A periodical report on status of complaints is also submitted to CEO, Senior Management and Board of Directors. To provide our customers with easy access to financial services, fair terms, and pricing and at the same time to ensure that we are remain committed to being at the heart of customers we serve, an independent customer feedback collection is being carried. This will help us to follow our passion to go above and beyond the expectation of our customers in providing enhanced value in the diversity of our products and services.

20. Sharia Governance Disclosures

20.1 Qualitative Disclosure

Compliance to Sharia principles and requirements are inherently built into the Bank's end-to-end activities and transactions including products & services by following a comprehensive Sharia Governance Framework which comprised of several key elements listed below that sets the standards and implementation that ensure holistic Sharia compliance:

1) Islamic Banking Regulatory Framework (IBRF)

A 'rule book' issued by the Central Bank of Oman on Islamic banking that sets guidelines on Sharia Governance and its relevant Sharia functions, Risk Management and Accounting concepts and general product features which are permitted in Oman for Islamic banks in tandem with Oman Banking Law.

2) AAOIFI Standards

Sharia, Accounting and Governance Standards are published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) [and being referred to by CBO in IBRF]; represent a major reference especially for Sharia compliance in the Islamic banking sector. Sharia resolutions which are not readily available in the AAOIFI Sharia standards are covered by resolutions from SSB.

3) Sharia Supervisory Board (SSB)

SSB members are well-respected Omani and International Sharia scholars who review and provide Sharia resolutions and Fatwas on all products and related processes. The SSB is the ultimate responsible body within the Bank for all Sharia related matters and is responsible for overall Sharia supervision and oversight activities to ensure that the Bank's transactions and operations are Sharia compliant at all times. The SSB, which meets on a quarterly basis, consists of Sheikh Dr. Mohammad bin Rashid Al Gharbi (Chairman), Sheikh Dr. Aznan bin Hasan (Deputy Chairman and new member) and Sheikh Ibrahim bin Nasser Al Sawwafi (Member) and Sheikh Ali bin Suliman Aljahdami (new member).The SSB has established a Sharia Executive Committee ("Sharia ExCom"), comprising of Sheikh Al Gharbi, Sheikh Al Sawwafi, and new member Sheikh Ali bin Suliman Aljahdami, which meets on a monthly basis to review the Bank's business from a Sharia perspective and consider current business requirements. Sharia ExCom resolutions are based on previous SSB Sharia guidelines and Fatwas.

4) Internal Sharia Reviewer (ISR) / Head of Sharia:

The ISR assumes the responsibilities of Head of Sharia Department. Under the IBRF, the ISR is also responsible for heading the Sharia Compliance Unit and the Sharia Audit Unit. The major technical role of ISR is to execute Sharia review financing proposals in coordination with the Head of Sharia Structuring. Review of proposals within current approved product programs and Sharia Supervisory Board guidelines are presented to the respective business units as part of the required documents for execution. This function is the pre-execution Sharia review activity.

In addition to these daily functions, the ISR with assistance from the assigned team member acts as the coordinator for the SSB and prepares the meeting file and the minutes of meetings. Sharia resolutions and guidelines are then communicated to the respective business unit heads for adherence. Any approval required from business units before the next meeting of the SSB is communicated by the ISR to SSB members by email for review and approval by Sharia resolution. The SSB has also delegated specific authorities to the Sharia Ex-Com whereby its members are entitled to issue Sharia resolutions. The ISR also prepares the agenda and documents, and minutes of meetings for Sharia Ex-Com and communicates its Sharia resolutions to relevant business unit heads.

5) Sharia Structuring & Compliance

Under the IRBF, the Sharia Compliance Unit is responsible for facilitating the Bank's management to ensure compliance with Sharia (as manifested by the guidelines and Fatwa issued by the SSB) and is extensively involved before a new product or transaction is approved. This function provides Sharia review and supervision for business transactions and support function activities before execution (ex-ante) to confirm that structuring has been concluded based on IBRF, AAOIFI, and SSB Sharia guidelines and controls. Consequently, Sharia Review Reports (SRR) are prepared to document this supervision activity and presented to Sharia Ex-Com and the SSB in the monthly and quarterly meetings. This function forms the core of Sharia activity in the department and is also responsible for advising on any new product development activity as well for reviewing product programmes and its ancillary documentations. To support the Sharia compliance activity, Sharia non-compliance risks are continuously scrutinised, and specific mitigation controls are set to minimise the risks that occur due to unintentional human errors. Any income of Sharia non-compliant transactions is donated to charity as per SSB guidelines.

6) Sharia Audit Function

Under the IRBF, the Sharia Audit Unit is responsible for assisting an "Internal Sharia Reviewer" and the SSB to form and express an opinion on the extent of the Sharia compliance of the Bank's operations. This is a dedicated function within the Bank that reports directly to the SSB and the ISR, staffed with experienced professionals who conduct Sharia audit after execution of transactions to confirm adherence to Sharia guidelines as issued by the SSB and as per Sharia reviews (ex-post). The function is also responsible for ensuring the Profit Distribution Mechanism on Mudaraba accounts is properly executed and for ensuring all incomes generated from banking transactions and services are not tainted, which may render it Sharia non-compliant (in which case such income must be donated to charity). Any Sharia non-compliance event is immediately reported to Sharia Ex-Com for review and decision and further reported to the SSB for next course of action / Sharia rule.

7) External Sharia Audit

As required by IBRF, the Bank appoints an independent and qualified external Sharia Auditor to audit the activities of the Bank on an annual basis.

8) Sharia Training

To ensure that all members of management and staff have sufficient working knowledge of Islamic banking principles and guidelines, Sharia compliance department staff continues to exert major focus on Sharia training so that these principles are understood and practiced. Sharia training also encompasses external parties based on an awareness campaign on Islamic banking for all constituents of society such as school teachers and students, university students, employees in ministries and public sector institutions.

9) Sharia Non-Sharia Compliance Risk:

Based on the Sharia guidelines in the IBRF concerning Sharia Non-Sharia Compliance Risk function, the Manager of Sharia Non-Compliance Risk Unit (SNCRU) identify, measure, monitor, control, and manage Sharia non-compliance risks in the bank arising from failure to comply with Sharia rules and principles as set by IBRF issued by CBO, and Sharia standards issued by AAOIFI, and the Sharia rulings and guidelines issued by SSB. The Manager also assist the ISR in identifying the Sharia non-compliance risk parameters for each department or function.

- SNCRU Measure quantitatively the volume of the identified parameters and detect any Sharia non-compliance events for each parameters.
- SNCRU Monitor the development of the Sharia non-compliance parameters during the year periodically as presented in its monthly/quarterly SNCR Reports.
- SNCRU Provide reasonable control measures to establish assurance of the soundness of operations which prevent violations to Sharia compliance measures and guidelines.

20.2 Quantitative Disclosure

Disclosure of the nature, size and number of violations of Sharia compliance during the year

- Sharia Audit Unit conducts ongoing Sharia audit on all business transactions of the bank. Wholesale banking & retail transaction are subject to sharia audit based on sample basis as approved by SSB in the annual Sharia Audit Plan. Sharia audit findings and observations in these transactions are directly reported to Sharia Ex-Com who gives immediate instructions and Sharia ruling regarding any violations. In case the violation is confirmed, Sharia Ex-com diverts the profit of such transaction to charity account, and the same cases are reported to SSB in the quarterly SSB Sharia Audit Report.
- During the period, the Bank did not recognize any Sharia non-compliant income as revenue and any identified non sharia compliant income has been appropriately transferred to charity.
- All immaterial non-compliances with Shariah principles and rules if any have been satisfactorily resolved and matters have been concluded in light of the approvals and guidelines of the Shariah supervisory board.
- any amounts determined to be payable / transferable to charity fund have been transferred to the charity fund within reasonable time of identification and as of the date of the financial statements, there is no amount of charity pending transfer to the charity fund. We further confirm that all amounts allocated to charity fund were spent in accordance with the approved charity policy as approved by the Shariah Supervisory Board

Disclosure of annual Zakat contributions of the Licensee, where relevant, according to constitution, general assembly or national requirements or as required by the respective SSB

- SSB issues its Sharia compliance certificate where it identifies that Sharia compliance has been observed in the bank's transactions and contracts, and in case of any violation, the observation is listed in the report. In addition, and as per Management decision, SSB certificate also stipulates that Zakat payment is the responsibility of the shareholders.

Remuneration of Sharia board members

- SSB members are compensated for their contribution in the business supervision by an agreed remuneration, in addition to SSB meeting attendance fees. SSB members who participate from outside Oman are also entitled to travel and hotel accommodation expenses.
- During the year, the Bank paid RO 63 thousands (Dec 2020: RO 58 thousands) on account of remuneration to the SSB which includes accommodation, travelling expenses, meeting and annual fees.

21. Disclosures on Remuneration

- In line with the CBO guidelines on remuneration disclosures as part of Pillar III, the Bank has outlined the relevant qualitative and quantitative disclosures in this report.
- The Bank is committed to fair, balanced, performance-oriented compensation practices that align long-term employee and shareholder interests. The policy is aimed to attract, retain and motivate the best people in the industry as it believes that human capital is fundamental to the bank's success.
- The Bank has a Board appointed Human Resource Committee whose primary objectives are – setting the principles, parameters and governance framework for the Bank's compensation policy; and ensuring the Bank is equipped to meet standards of international best practice.

Material Risk Takers

- The Bank has identified the members as material risk takers as their activities have a significant influence on the risk profile of the Bank.
- The main factors that have been used to identify the material risk-takers in the bank are:
  - o the level of the job position in the management hierarchy as defined by grade (arrived at by objective Job Evaluation)
  - o responsibilities of the job that expose it to risk

Remuneration policy

- The scope of the Bank's remuneration policy extends to all employees of the bank and is an integral part of Bank's Human Resource policy.
- Remuneration of employees of control functions like Risk Management, Internal Audit and Compliance is independent of the business performance they oversee, and the policy is designed to attract, retain and motivate the best talent in the industry.
- The remuneration for Senior Management of these functions is directly designed and approved by the Board Human Resource Committee.

Performance awards

- Performance awards are based on the achievement of both financial and non-financial objectives. The Performance Management System is aimed at achieving the Bank's business plans and objective through continuous and focused performance of the employees. It uses Key Result Areas/ performance factors and competencies to measure and enhance the performance of employees.
- The policy and payment of reward is in line with CBO guidelines on Sound Compensation Principles and Standards.
- The Bank is committed to follow fair compensation practices where reward will be based on performance. The compensation is designed to contribute to the Bank's objectives and encourages prudent risk taking and adherence to applicable laws, guidelines, and regulations.

Quantitative Disclosures

- The Board Human Resource Committee held Five meetings in 2021 (2020: Five) and RO 10,100 (2020: RO 9,00) was paid to the members in lieu of sitting fees.
- The key management comprises of 15 members (2020: 15 members) of the management executive committee. The below table provides details of key management compensation:

	2021	2020
	RO'000	RO'000
Salaries and Benefits	1,991	1,865
Deferred Bonus	156	93
End of Service Benefits	-	-
Total	2,147	1,958

22. Liquidity coverage ratio (LCR)

- The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations require banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. This standard aims to ensure that a bank has an adequate stock of unencumbered High Quality Liquid Assets (HQLA) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the bank to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by management and supervisors, or that the bank can be resolved in an orderly way. Furthermore, it gives the Central Bank additional time to take appropriate measures, should they be regarded as necessary.

2021 Liquidity Coverage Ratio (LCR)	Factor	Book Balance	Adjusted amount
Level 1 assets		RO '000	RO '000
Coins and bank notes	100%	7,168	7,168
Qualifying central bank reserves	100%	50,508	50,508
Qualifying marketable securities from sovereigns, central banks, PSEs and multilateral development banks	100%	-	-
Domestic sovereign or Central Bank debt for non-0% Risk-Weighted sovereigns	100%	83,491	83,491
Total Level 1 assets		141,167	141,167
Level 2A			
Sovereign, Central Bank, Public Sector Entity (PSE), multilateral development banks assets (qualifying for 20% risk weighing)	85%	30,800	26,180
Total Level 2A		30,800	26,180
Level 2B			
Qualifying corporate debt securities, rated between A+ and BBB-	50%	-	-
Qualifying common equity shares	50%	36	18
Total Level 2B (maximum 15% of HQLA)		36	18
Total level 2 assets (Maximum 40% of HQLA)		30,836	26,198
Total Stock of high quality liquid assets		172,003	167,365
Cash outflows			
Stable Deposits	5%	203,420	10,171
Less stable deposits- Retail	10%	272,583	27,258
Term Deposits with residual maturity of more than 30 days	0%	-	-
Less stable deposits- Wholesale Funding	10%	333,368	33,337
Non-financial corporates, sovereigns, central banks and PSE	40%	45,466	18,186
Other legal entity customers	100%	6	6
Currently undrawn portion of credit lines			
Retail and small business	5%	2,891	145
Other Legal entity customers, credit and liquidity facilities	100%	16,076	16,076
Other contingent funding liabilities (Letters of credit, guarantee)	5%	240,964	12,048
Total cash outflows		1,114,774	117,227
Cash inflows			
All other assets	100%	205	205
Amounts to be received from retail counterparties	50%	4,154	2,077
Amounts to be received from non-financial wholesale counterparties from transactions other than those listed.	50%	53,074	26,537
Amounts to be received from financial institutions and central banks from transactions other than those listed	100%	27,000	27,000
Operational deposits held at other financial institutions	0%	5,906	-
Total cash inflows		90,339	55,819
75% of outflows			87,920
Inflows restricted to 75% of outflows			55,819
Net cash outflows			61,408
LCR (%)			272.54

2020 Liquidity Coverage Ratio (LCR)	Factor	Book Balance	Adjusted amount
Level 1 assets		RO '000	RO '000
Coins and bank notes	100%	5,443	5,443
Qualifying central bank reserves	100%	34,746	34,746
Qualifying marketable securities from sovereigns, central banks, PSEs and multilateral development banks	100%	16,555	16,555
Domestic sovereign or Central Bank debt for non-0% Risk-Weighted sovereigns	100%	76,168	76,168
Total Level 1 assets		132,912	132,912
Level 2A			
Sovereign, Central Bank, Public Sector Entity (PSE), multilateral development banks assets (qualifying for 20% risk weighing)	85%	802	682
Total Level 2A		802	682
Level 2B			
Qualifying corporate debt securities, rated between A+ and BBB-	50%	-	-
Qualifying common equity shares	50%	57	29
Total Level 2B (maximum 15% of HQLA)		57	29
Total level 2 assets (Maximum 40% of HQLA)		859	710
Total Stock of high quality liquid assets		133,772	133,623
Cash outflows			
Less stable deposits- Retail	10%	247,311	24,731
Term Deposits with residual maturity of more than 30 days	0%	160,303	-
Less stable deposits- Wholesale Funding	10%	231,845	23,185
Non-financial corporates, sovereigns, central banks and PSE	40%	21,204	8,482
Other legal entity customers	100%	58,338	58,338
Currently undrawn portion of credit lines			
Retail and small business	5%	3,067	153
Other Legal entity customers, credit and liquidity facilities	100%	10,658	10,658
Other contingent funding liabilities (Letters of credit, guarantee)	5%	126,329	6,316
Total cash outflows		859,055	131,863
Cash inflows			
All other assets	100%	20,968	20,968
Amounts to be received from retail counterparties	50%	3,724	1,862
Amounts to be received from non-financial wholesale counterparties from transactions other than those listed.	50%	18,374	9,187
Amounts to be received from financial institutions and central banks from transactions other than those listed	100%	-	-
Operational deposits held at other financial institutions	0%	13,012	-
Total cash inflows		56,077	32,016
75% of outflows			98,897
Inflows restricted to 75% of outflows			32,016
Net cash outflows			99,847
LCR (%)			133.83

23. Net Stable Funding Ratio (NSFR)

The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations require banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. The Net Stable Funding Ratio (NSFR) promotes resilience over a longer-term time horizon by requiring banks to fund their activities with more stable sources of funding on an ongoing basis. As per the CBO regulations, banks are required to have NSFR more than 100%.

2021	Associated factor	Unweighted amount	Weighted amount
Available stable funding		RO'000	RO'000
Tier 1 capital	100%	222,079	222,079
Tier 2 capital (excluding Tier 2 instruments with residual maturity of less than one year)	100%	14,784	14,784
Other liabilities with effective residual maturities of one year or more	100%	16,755	16,755
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	90%	188,037	169,233
Funding with residual maturity of less than one year provided by non-financial corporate customers, Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks	50%	267,185	133,593
All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests)	0%	36,513	-
Total Available Stable Funding			556,444
Required stable funding			
Coins, bank notes and reserves with CBO	0%	95,379	-
Financing to financial institutions and central banks with residual maturities between six months and less than one year	50%	-	-
All other assets not included in the above categories with residual maturity of less than one year, including financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns and PSEs	50%	388,443	194,222
Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach	65%	323,595	210,337
All other assets not included in the above categories, including non-performing financing, financing to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	100%	29,025	29,025
Sub total (A)		836,442	433,584
Off balance sheet exposures			
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	5%	18,967	948
Non contractual obligations such as potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities, structured products where customers anticipate ready marketability, managed funds that are marketed with the objective of maintaining a stable value	5%	240,964	12,048
Sub total (B)		-	12,996
Total Required Stable Funding (A+B)		-	446,580
NSFR (%)		-	124.60

2020	Associated factor	Unweighted amount	Weighted amount
Available stable funding		RO'000	RO'000
Tier 1 capital	100%	154,968	154,968
Tier 2 capital (excluding Tier 2 instruments with residual maturity of less than one year)	100%	10,900	10,900
Other liabilities with effective residual maturities of one year or more	100%	20,107	20,107
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	90%	158,565	142,709
Funding with residual maturity of less than one year provided by non-financial corporate customers, Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks	50%	266,176	133,088
All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests)	0%	10,356	-
Total Available Stable Funding			461,772
Required stable funding			
Coins, bank notes and reserves with CBO	0%	80,439	-
Financing to financial institutions and central banks with residual maturities between six months and less than one year	50%	-	-
All other assets not included in the above categories with residual maturity of less than one year, including financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns and PSEs	50%	315,324	157,662
Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach	65%	311,737	202,629
All other assets not included in the above categories, including non-performing financing, financing to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	100%	20,968	20,968
Sub total (A)		728,468	381,259
Off balance sheet exposures			
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	5%	10,658	533
Non contractual obligations such as potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities, structured products where customers anticipate ready marketability, managed funds that are marketed with the objective of maintaining a stable value	5%	126,329	6,316
Sub total (B)		-	6,849
Total Required Stable Funding (A+B)		-	388,107
NSFR (%)		-	118.98

Basel III common disclosure (as per the template to be used during the transition of regulatory adjustments i.e. from 1 January 2013 to 1 January 2018)

		Dec-21	Dec-20
		RO'000	RO'000
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	**222,102**	152,091
2	Retained earnings	**4,519**	4,188
3	Accumulated other comprehensive income (and other reserves)	**11,413**	3,266
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
5	Public sector capital injections grandfathered until 1 January 2018		
6	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
7	**Common Equity Tier 1 capital before regulatory adjustments**	**238,034**	**159,545**
8	**Common Equity Tier 1 capital: regulatory adjustments**		
9	Prudential valuation adjustments	**(219)**	(2,313)
10	Unrealized losses		
11	Goodwill (net of related tax liability)	**-**	-
12	Other intangibles other than mortgage-servicing rights (net of related tax liability)	**(3,327)**	(2,264)
13	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**(650)**	-
14	Mortgage Servicing rights (amount above 10% threshold)		
15	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
16	Amount exceeding the 15% threshold		
17	of which: significant investments in the common stock of financials		
18	of which: mortgage servicing rights		
19	of which: deferred tax assets arising from temporary differences	-	-
20	National specific regulatory adjustments		
21	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
22	**Total regulatory adjustments to Common equity Tier 1**	**233,838**	**154,968**
23	**Common Equity Tier 1 capital (CET1**	**233,838**	**154,968**
24	**Additional Tier 1 capital: instruments**		
25	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-
26	of which: classified as equity under applicable accounting standards	-	-
27	of which: classified as liabilities under applicable accounting standards 6	-	-
28	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
29	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)	-	-
30	of which: instruments issued by subsidiaries subject to phase out	-	-
31	**Additional Tier 1 capital before regulatory adjustments**	-	-
32	**Additional Tier 1 capital: regulatory adjustments**		
33	Investments in own Additional Tier 1 instruments		
34	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
35	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)	-	-
36	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)		
37	National specific regulatory adjustments	-	-

		Dec-21	Dec-20
		RO'000	RO'000
38	**REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT**	-	-
39	of which: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
40	of which: Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	-
41	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
42	Total regulatory adjustments to Additional Tier 1 capital	-	-
43	Additional Tier 1 capital (AT1)	-	-
44	**Tier 1 capital (T1 = CET1 + AT1)**	233,838	154,968
45	**Tier 2 capital: instruments and provisions**		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
47	Directly issued capital instruments subject to phase out from Tier 2	-	-
48	Tier 2 instruments (and 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	Fair value gains on financial assets at fair value through equity	1,000	-
50	Provisions	11,214	10,900
51	**Tier 2 capital before regulatory adjustments**	12,214	10,900
52	**Tier 2 capital: regulatory adjustments**		
53	Investments in own Tier 2 instruments	-	-
54	Reciprocal cross-holdings in Tier 2 instruments	-	-
55	Total regulatory adjustments to Tier 2 capital	-	-
56	Tier 2 capital (T2)	12,214	10,900
57	Total capital (TC = T1 + T2)	246,052	165,868
58	**RISK-WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT**		
59	OF WHICH: [INSERT NAME OF AJUSTMENT]	-	-
60	OF WHICH.....	-	-
61	Total Risk-Weighted assets (60a+60b+60c)	1,309,976	1,212,466
62	Of which: Credit Risk-Weighted assets	1,163,613	1,145,255
63	Of which: Market Risk-Weighted assets	73,476	5,105
64	Of which: Operational Risk-Weighted assets	72,887	62,106
65	**Capital Ratios**		
66	Common Equity Tier 1 (as a percentage of Risk-Weighted assets)	17.85%	12.78%
67	Tier 1 (as a percentage of Risk-Weighted assets)	17.85%	12.78%
68	Total capital (as a percentage of Risk-Weighted assets)	18.78%	13.68%

Note:

The Board of Directors in their meeting held on 30th January 2022 has proposed a cash dividends of 5 Baiza per share; amounting to RO 11.185 million (2020 approved: 1.25 Baiza per share; amounting to RO 1.875 Million) from the Retained Earnings for the year 2021 subject to the approval of Central Bank of Oman , Capital Market Authority, and the Shareholders.

The Board's resolution of dividend distributions will be presented to the shareholders at the Annual General Meeting which will be held on 28 March 2022. The Capital Adequacy Ratio will reduce from 18.78% to 17.93% (2020: 13.68% to 13.53% against a minimum regulatory requirement of 12.25%; Common Equity Tier-1 ratio will reduce from 17.85% to 17.00% (2020: 12.78% to 12.63%), Tier 1 Ratio will reduce from 17.85% to 17.00% (2020: 12.78% to 12.63%).

Table 2 (A)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	RO'000	RO'000	RO'000	RO'000
Assets	Dec-21	Dec-21	Dec-20	Dec-20
Cash and balances with Central Bank of Oman	90,028	90,028	67,943	67,943
Certificates of deposit	-	-	-	-
Due from banks	32,692	32,692	12,996	12,996
Islamic Financing	1,123,926	1,123,926	988,158	988,158
Investments in Sukuk and Securities	128,324	128,324	102,019	102,019
Financing to banks	-	-	-	-
Investment in Assets generated revenue	14,175	14,175	14,175	14,175
Property and equipment	3,258	3,258	1,780	1,780
Deferred tax assets	650	650	-	-
Other assets	11,770	11,770	19,188	19,188
Total assets	**1,404,823**	**1,404,823**	**1,206,259**	**1,206,259**
Liabilities				-
Due to banks	20,527	20,527	91,833	91,833
Customer deposits	1,109,819	1,109,819	924,561	924,561
Current and deferred tax liabilities	-	-	-	-
Other liabilities	34,638	34,638	30,177	30,177
Subordinated Sukuk	-	-	-	-
Total liabilities	1,164,334	1,164,334	1,046,571	1,046,571
Shareholders' Equity		-		-
Paid-up share capital	220,011	220,011	150,000	150,000
Share premium	2,091	2,091	2,091	2,091
Legal reserve	4,519	4,519	3,266	3,266
Impairment Reserve	150	150	150	150
Retained earnings	11,413	11,413	4,188	4,188
Cumulative changes in fair value of investments	1,655	1,655	(7)	(7)
Subordinated debt reserve	-	-	-	-
Total shareholders' equity	**239,839**	**239,839**	**159,688**	**159,688**
Total liability and shareholders' funds	**1,404,823**	**1,404,823**	**1,206,259**	**1,206,259**

Table 2 (B)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets	**Dec-21**	**Dec-21**	Dec-20	Dec-20
Cash and balances with CBO	90,028	90,028	67,943	67,943
Balance with banks and money at call and short notice	32,692	32,692	12,996	12,996
Investments		-	-	-
Of which Held to Maturity	1,982	1,982	1,979	1,979
Out of investments in Held to Maturity:		-		-
Investments in subsidiaries	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-
Available for Sale	-	-	-	-
Of which: Investments in Sukuks and Securities	126,342	126,342	100,040	100,040
Held for Trading		-	-	-
Investments in Real Estate	14,175	14,175	14,175	14,175
Islamic Financing Of which :		-	-	-

Table 2 (B)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets	Dec-21	Dec-21	Dec-20	Dec-20
Islamic Financing to domestic banks		-	-	-
Islamic Financing to non-resident banks		-	-	-
Islamic Financing to domestic customers	1,092,890	1,092,890	959,389	959,389
Islamic Financing to non-resident Customers for domestic operations		-	-	-
Islamic Financing to non-resident Customers for operations abroad	-	-	-	-
Islamic Financing to SMEs	31,036	31,036	28,769	28,769
Islamic Financing from Islamic banking window		-	-	-
Fixed assets	3,258	3,258	1,780	1,780
Other assets of which:		-		
Profit Receivable	7,267	7,267	15,894	15,894
Prepaid Expense	486	486	378	378
Refundable Deposits	83	83	83	83
Goodwill		-		-
Other intangibles	3,327	3,327	2,264	2,264
Deferred tax assets	650	650	-	-
Others	607	607	569	569
Debit balance in Profit & Loss account				
Total Assets	**1,404,823**	**1,404,823**	**1,206,259**	**1,206,259**
Paid-up Capital	220,011	220,011	150,000	150,000
Of which:		-		
Amount eligible for CET1	238,184	238,184	159,695	159,695
Amount eligible for AT1	-	-	-	-
Reserves & Surplus	1,655	1,655	(7)	(7)
Total Capital	239,839	239,839	159,688	159,688
Deposits Of which:		-		
Deposits from banks		-		
Customer deposits	**1,109,819**	**1,109,819**	**924,561**	**924,561**
Deposits of Islamic Banking window		-		
Other deposits(please specify)		-		
Borrowings Of which: From CBO		-		-
From banks	20,527	20,527	91,833	91,833
From other institutions & agencies	-	-	-	-
Borrowings in the form of bonds, Debentures and Sukuk	-	-	-	-
Others (Please specify)		-		-
Other liabilities & provisions Of which:		-		-
Creditors and Accrual	12,361	12,361	13,414	13,414
Payment Order	6,743	6,743	6,231	6,231
Profit Payables	8,506	8,506	5,837	5,837
Others	7,028	7,028	4,695	4,695
Total Equity and Liabilities	1,404,823	1,404,823	1,206,259	1,206,259

Table 3

Disclosure template for main features of regulatory capital instruments

Common equity comprises of 2,236,953,032 equity shares of Bz. 98 each fully paid up, issued and governed under the law of Sultanate of Oman.

1	Issuer	Bank Nizwa
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for Private placement)	BKNZ:OM
3	Governing law (s) of the instrument Regulatory treatment	Sultanate of Oman
4	Transitional Basel III rules	Tier 1
5	Post-transitional Basel III rules	Eligible
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Paid-up Capital
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	RO 233.838 Millions
9	Par value of instrument	98 Bz
10	Accounting classification	Paid-up Capital
11	Original date of issuance	23-Apr-12
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	if convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	N/A
31	If write-down, write-down trigger (s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

Basel III leverage ratio framework and disclosure requirements - Reports for the year ended 31-Dec-21

(All amounts in RO'000)

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

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

	Item	Dec - 2021	Dec – 2020
1	Total consolidated assets as per published financial statements	**1,404,823**	1,206,259
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 recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4	Adjustments for derivative financial instruments		
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)	**125,039**	125,578
7	Other adjustments		
8	Leverage ratio exposure	**1,529,862**	1,331,837

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	Dec - 2021	Dec – 2020
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,404,823	1,206,259
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	1,404,823	1,206,259
	Derivative Exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e., net of eligible cash variation margin)		
5	Add-on amounts for PFE associated with *all* derivatives transactions		
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)	-	-
	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	395,998	336,586
18	(Adjustments for conversion to credit equivalent amounts)	(270,949)	(211,008)
19	Off-balance sheet items (sum of lines 17 and 18)	125,039	125,578
	Capital and total exposures		
20	Tier 1 capital	233,838	154,967
21	Total exposures (sum of lines 3, 11, 16 and 19)	1,529,862	1,331,837
	Leverage Ratio		
22	Basel III leverage ratio (%)	6.54	8.59

End of Basel II Pillar 3 Disclosures

Appendix - Sharia Supervisory Board Resolutions (Fatwas)

The Shariah Board's fatwa on the use of Diminishing Musharaka in selling and re-leasing to convert Murabaha and Wakala with Investment into Diminishing Musharaka, and the Procedures for doing so.

After due compliments,

After reviewing the Board's Decision No. (06/17/17092020), regarding (the use of diminishing Musharaka as a substitute for leasing in purchase and re-lease), and the Board's Decision No. (07/77/30082021) on (The decision of the Supreme Shariah Board regarding the use of the concept of Musharakah in buying a share of a real estate owned by the customer and allowing the proceeds to be used to pay the investment agency), the Shariah Board resolved the following:

1- It is authorized to present new acceptable assets to the bank in order to engage into a diminishing Musharaka contract, whereby the bank, on the customer's request, utilizes the proceeds of the diminishing Musharaka to pay off the Murabaha debt.

2- The customer may sell his share of the contracted asset in the Murabaha in the form of a diminishing partnership, if no previous cooperation between the two parties to the Murabaha resulted in the resale under the following two conditions:

  a- The first Murabaha must have been completed for at least one year, in accordance with what was stated in article 8/5 of Sharia Standard No. (9) issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

  b- The share on which the new contract falls does not exceed the customer's share of what corresponds to his indebtedness in Murabaha in order to avoid selling the debt.

3- The purposes of the sale and re-lease contract may be expanded to include the payment of the agency's investment obligations, and the Shariah Board of Bank Nizwa considers that article (3), referred to in the decision of the Supreme Shariah Board in this regard, which is consistent with the provisions of the investment agency, means the following:

  a- That the investment agency does not become a debt unless the agency is liquidated, and the customer's financial statements indicate the existence of profits or no loss, then the investment agent is required to return the agency's capital in addition to the profit achieved, if any, and it is then authorized to enter into another Sharia deal to cover the obligation that he must pay, as stated in the decision of the Supreme Shariah Board "Sale and Lease Contract in Diminishing Musharaka"

  b- However, if a loss occurs without the agent's infringement or negligence and according to the audited financial statements, the loss is borne by the principal, and the agent is required to return the remaining capital, and the agent may enter into a new transaction with the bank to cover the remaining capital.

  c- The Shariah Board warns that it is allowed for the agent to compensate for the decrease in profit in the event of liquidation, whether the liquidation is early or at the end of the term, in accordance with the Supreme Sharia Board's decision regarding the investment agency, and its interpretation of article (6) of its decision dated 4/30/2020 AD (H.A.R. Sh/21/1/2/2020/3) and Bank Nizwa Shariah Board's decisions.

4- To prevent the possibility of Einah Sale, it is not allowed to proceed with the resale of shares of the assets before the end of the designated term.

5- The conditional term for reselling assets or shares of them may be extended to at least six months, rather than a year, to account for the impact of the epidemic and real market price changes.

The Board believes that the executive actions presented to it are compatible with the Shariah controls for the products approved by the Sharia Board, and has approved the contracts necessary for implementation after being amended, including the case of a company partner submitting his assets to be the subject of participation with authorizing the bank to pay the company's obligations to it.

Sheikh Dr. Mohammed bin Rashid Al-Gharbi	**Sheikh Dr. Aznan bin Hassan**	**Sheikh Dr. Ibrahim bin Nasser Al-Sawafi**
Head of the Shariah Board	Vice Chairman of the Shariah Board	Sharia Board Member

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