ANNUAL REPORT 2021

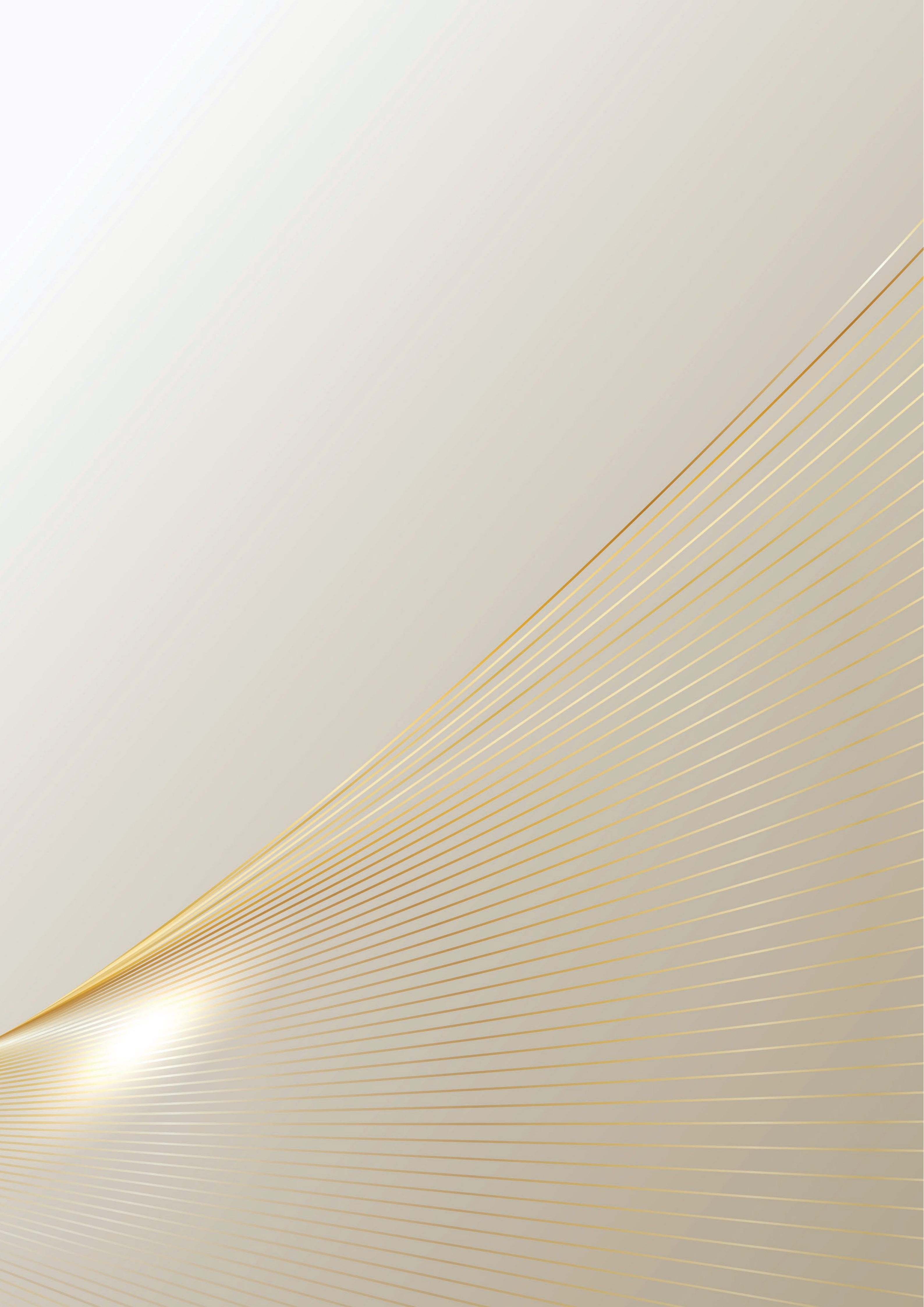
بنك الإسكان العماني ش.م.ع.م.

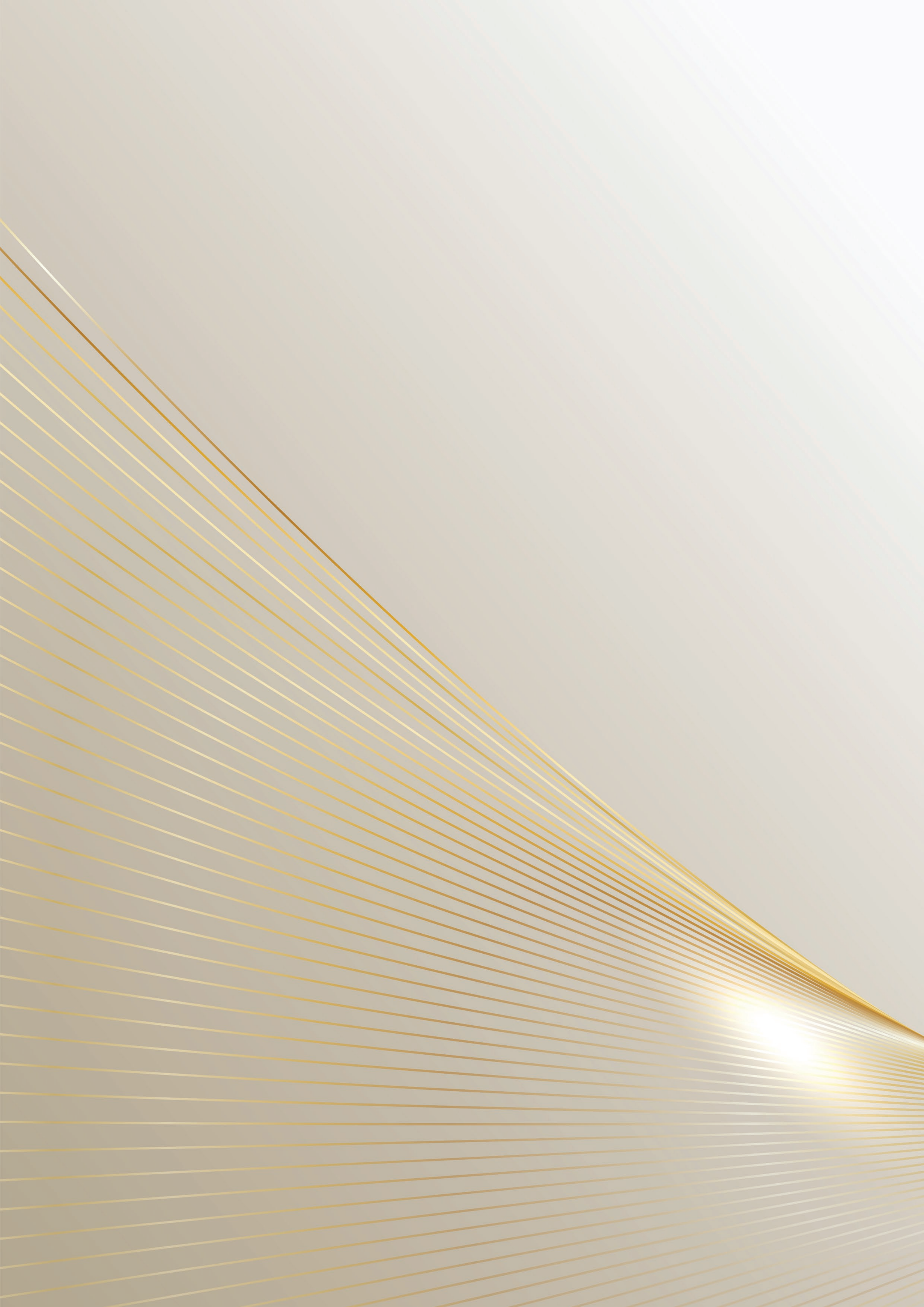
OMAN HOUSING BANK S.A.O.C.

PIONEERING INTEGRATED HOUSING

بنك الإسكان العماني ش.م.ع.م.

OMAN HOUSING BANK S.A.O.C.





His Majesty
Sultan Haitham Bin Tariq

“It is the goal which we all aspire for, utilizing all our resources and capabilities in the quest to protect our national interests, considered the mainstay of the future stage whose tracks and goals were defined by Oman Vision 2040, with the prime aim of transforming all aspects of life.”

His Majesty’s Royal Speech
18 November 2020

Vision

Pioneering Integrated Housing.

Mission

The Bank seeks to be pioneer of housing loans and construction progresses to contribute in the economic development of the Sultanate of Oman, distinguishing by the services provided to its customers, specially to the low and medium income Omani citizens, achieving the objectives of the shareholders, and interesting in the development of human capital through an efficient banking, attractive and motivated work environment.

Board of Director's Report 2021

Salam bin Saeed Al-Shaksi

Chairman of The Board of Directors

Dear Shareholders
After compliments,

It is an honor and privilege for me to welcome you, and to represent on behalf of my fellow Board Members, the Annual Report on the Bank's Business results, achievements and Financial Statements for the year ending on 31/12/2021.

Since the establishment of the Bank, it has been working on developing its business and services and enhancing its leadership in the housing sector. In this context, the Board is pleased to inform you that the Bank was able to achieve the goals it sets in its budget for the mentioned year, whether at the level of lending or at the level of strengthening the bank's financial position, and many of the achievements during the year as shown in this report.

Lending Activity

During the year, thanks to the continuous support provided by the Good governance, the Bank was able to continue providing subsidized loans to citizens as follows:

- The number of approved loans amounted to (2274) loans worth (100,000,000) Million Omani Riyals until the end of the year 2021. The Bank also sought to deliver its services to the various governorates of· the Sultanate, especially the areas outside of Muscat Governorate, where the number of loans granted in the governorates outside Muscat Governorate reached (1751) loans amounting to (76,166,000) Million Omani Riyals, which was (76%) of the total lending activity.

The following table shows the distribution of loans granted with subsidized fees wise Bank's branches in various Governorates and States of Oman in the years 2020 and 2021.

Branches	Approved loans With a subsidized fee during the year 2021				Approved loans With a subsidized fee during the year 2020			
	No	%	Amount (R.O.)	%	No	%	Amount (R.O.)	%
Main Office	523	23	23833800	180	20	8485900	21	21
Salalah	53	2	2463800	39	4	1691400	4	4
Sohar	335	15	14107500	97	11	4083000	10	10
Sur	117	5	5272400	71	8	3276100	8	8
Nizwa	354	16	15926400	128	14	5625700	14	14
Khasab	52	2	2471500	37	4	1836700	5	5
Buraimi	155	7	6893100	60	7	2651100	7	7
Rustaq	550	24	23368000	235	26	9996100	25	25
Ibra	135	6	5663500	57	6	2347100	6	6
Total	2274	100	100000000	904	100	39993100	100	100

The total subsidized loans provided by the bank to citizens since its establishment in 1977 until the end of 2021 at the level of the Bank's branches in various governorates and states of the Sultanate amounted to(48,894) loans with a total value of more than (One Billion) Omani Riyals, including 18,322 loans to the Muscat Governorate, with a total value of (429,578.791) million Omani Riyals, (38%) of the total number of loans and (33%) of their value.

As for the number of subsidized loans granted to citizens in areas outside Muscat Governorate, it reached (30572) loans with a total value of (859,335,296) million Omani Riyals, i.e. (62%) of the total number of loans granted and (67%) of their value as indicated in the following table:

Branches	Approved loans With a subsidized fee during the year 2021			
	No	%	Amount (R.O.)	%
Main Office	18322	38	429.578.791	33
Salalah	4898	10	103.587.251	8
Sohar	4996	10	133.612.842	10
Sur	3204	7	84.567.196	7
Nizwa	5492	11	163.028.652	13
Khasab	918	2	26.235.600	2
Buraimi	1950	4	62.361.455	5
Rustaq	6552	13	213.544.500	16
Ibra	2562	5	72.397.800	6
Total	48894	100	1.288.914.087	100

In view of the huge demand for subsidized lending - after sanction of the new structure of banking and administrative services' fees - the Bank has decided to allocate all its available resources to be limited for subsidized loans only.

Financial Results

As for the Financial Results, and by reviewing the balance sheet figures for the fiscal year ending on 31/12/2021, it is clear that the Bank achieved positive results by recording good growth rates in most financial indicators, as the bank's total assets increased at the end of the year 2021 to reach (649.3) million Omani Riyals compared to (610.3) million Omani Riyals at the end of (2020), an increase of (6.4%.)

The growth in assets was mainly based on the rise in the Housing Loans portfolio, where the total loans portfolio increased on 31/12/2021 to reach (617.5) million Omani Riyals, compared to (580) million Omani Riyals at the end of the previous year, a rate of up to (6.5 %).

The Bank achieved a net profit of (19.4) million Omani Riyals with a relative increase of (8.4%) from the of the year 2020 profits which was amounting to (17.9) million Omani Riyals, mainly due to the increase in the revenues collected, and thus the bank is at the forefront of the main banks operating in Oman in terms of profits growth rate, the total shareholders' equity also increased to reach (304.5) million Omani Riyals, compared to (291.1) million Omani Riyals at the end of the previous year, with an increase rate of up to (4.6%), and this increase is due to the increase in capital, reserves and retained earnings.

The following table shows the status of the most important financial indicators during the past five years, from 2017 to 2021.

Particulars	2017	2018	2019	2020	2021
Net Profit	13,2	13,9	16,8	17,92	19.40
Total Assets	502,1	570,2	591,9	610,3	649.3
Total Liabilities	251,5	303,3	312,7	319,2	344.7
Total Net Loans	476,2	539,5	569,5	580	617.5
Total Shareholders Equity	250,6	267	279,2	291,1	304.5

The Bank focuses on developing its assets while maintaining the quality and durability of assets to enhance the bank's financial position so that it can achieve its goals with the required effectiveness. The Board of Directors proposes the distribution of net profits for the year 2021 to shareholders as follows:-

Net Profit for Year 2021 (in RO millions)	
Net Profit Distributions Transfer of an amount to the legal reserve (at the rate of 10% of the net profit)	1.940
Amount Transferred To The Special Reserve	3.493
Distribution of cash dividends to shareholders (6% of the paid-up capital)	6,000
Transfer of retained earnings	7.970
Total net profit for the year	19.403

About qualification and training, the Bank has organized (19) training programs in various and different fields related to Bank's business during the year in Oman, and the number of participants in them reached (126) participants, as the continuation in qualification and training will enhance the capabilities of the employees so that they can refine their job skills and performance of duties and responsibilities assigned to them in the required manner. The percentage of Omanis working in the Bank is about (99%) of the total number of employees, and it is thus considered at the forefront of banks operating in Oman in achieving this percentage.

Moreover, the Board looks forward to achieve more goals in various Banks' operations fields by completing a feasibility study for adding new banking products to support the Bank's revenues in line with the government's development plans and to achieve the Bank's lofty mission in providing suitable housing for Omani families.

In conclusion, the Bank's Board of Directors thanks the wise government for its continuous support to Bank to enable it to continue providing its services to citizens with ease.

Oman Housing Bank Board of Directors

The Board also extends its sincere thanks to Ministry of Finance, Oman Investment Authority, Central Bank of Oman and to all ministries, institutions, and governmental and private bodies for their fruitful cooperation with the Bank in order to carry out its mission and vision, and also thanks to the Bank's employees for their dedication, sincerity and efforts they have made to serve this institution and promoting it.

May God help us all to do more to serve our beloved Oman under the wise leadership of His Majesty Sultan Haitham bin Tariq (May God preserve and protect him) We pray to Allah the Almighty to grant His Majesty good health, wellness and long life, and the Omani people wellbeing and prosperity.

Peace, mercy and blessings of God ,,,

Salam bin Saeed bin Salem Al Shaqsi
Chairman of the Bank's Board of Directors

Chief Executive Officer Statement

Moosa Bin Masoud Al-Jadidi

Chief Executive Officer

In the Name of of Allah the Merciful the Beneficent

Praise be to the Lord of all worlds. Prayers and peace be upon our Prophet, Muhammad, his family and all of his companions.

At the very beginning; I would like to extend my highest thanks and appreciation to the esteemed Board of Directors, for its sound guidance, which had the most impact in strengthening the bank's march and strengthening its pioneering role in the housing and construction movement, in line with its mission to effectively contribute to the economic and urban development in the Sultanate of Oman, and based on an ambitious vision; its core is “Integrated Housing Leadership”.

These enlightening directives define the path and chart a way for the bank's employees to follow in developing the work process of this pioneering institution and move forward with confident steps and sincere determination. Their motto is: seriousness, sincerity and dedication, inspired - before that - by the lofty vision for the renewed Omani renaissance under the leadership of His Majesty Sultan Haitham bin Tarik May Allah protect and preserve him - which based on methodological foundations to enhance the renaissance path of Oman in all fields.

In achieving its steady successes, the Bank relies on the human element, which is the basis of success and the axis of development, along with the technical and informational data and using it in the work, which is positively reflected in the performance quality and excellence in providing banking services to meet the customers aspirations and keep pace with the qualitative leap in economic development and real estate development that all regions of Oman are experiencing.

Oman Housing Bank, since its establishment nearly forty-five years ago, has been the first coverage in providing decent housing for the citizens of our beloved country, and the bank's current successes are the culmination of a long march of excellence in banking business, which which is a testament to the bank's achievements in the field of real estate development, which has earned - and still - the admiration and praise, and won many prestigious awards at the local and international levels.

The growing activity of the Housing Bank, and its increasing contribution in accelerating the pace of construction in Sultanate of Oman, is clear and obvious, as is revealed by the numbers that indicate the steady increase in subsidized loans' number granted to citizens, and the rise in housing loan portfolio and the achieved profits as illustrated by the financial results, and all of this confirms the visibility, reflecting customers‘ confidence and the bank's keenness to play its role in order to achieve the mission for which it was established, which is revolved around providing adequate housing and contributing to the construction and reconstruction movement.

In continuation of its approach in banking excellence, and thanks to the support of the rational government, the Bank was able during the year 2021, to continue providing subsidized loans to citizens, as the number of approved loans reached (2274) loans worth (100) million Omani Riyals by the end of 2021, the Bank also sought to deliver its services to the various governorates of Oman, especially the regions outside Muscat Governorate , where the number of loans granted to citizens in the governorates outside Muscat reached 1,751 loans, with a total value of RO, (76,166,200), Seventy six million, one hundred sixty six thousand and two hundred Omani Riyals, at a rate of (76%) of the total lending activity.

The total subsidized loans provided by the bank to citizens since its establishment in 1977 until the end of 2021 at the level of the Bank's branches in various governorates and states of the Sultanate amounted to(48894) loans with a total value of more than (One Billion) Omani Riyals, including 18,322 loans to the Muscat Governorate, with a total value of (429,578.791) Omani Riyals, (38%) of the total number of loans and (33%) of their value.

In view of the huge demand for subsidized lending - after sanction of the new structure of banking and administrative services' fees - the Bank has decided to allocate all its available resources to be limited for subsidized loans only.

As for the Financial Results, and by reviewing the balance sheet figures for the fiscal year ending on 31/12/2021, it is clear that the Bank achieved positive results by recording good growth rates in most financial indicators, as the bank's total assets increased at the end of the year 2021 to reach (649.3) million Omani Riyals compared to (610.3) million Omani Riyals at the end of (2020), an increase of (6.4%.)

The growth in assets was mainly based on the rise in the Housing Loans portfolio, where the total loans portfolio increased on 31/12/2021 to reach (617.5) million Omani Riyals, compared to (580) million Omani Riyals at the end of the previous year, a rate of up to (6.5 %).

The Bank achieved a net profit of (19.4) million Omani Riyals with a relative increase of (8.4%) from the of the year 2020 profits which was amounting to (17.9) million Omani Riyals, mainly due to the increase in the revenues collected, and thus the bank is at the forefront of the main banks operating in Oman in terms of profits growth rate, the total shareholders' equity also increased to reach (304.5) million Omani Riyals, compared to (291.1) million Omani Riyals at the end of the previous year, with an increase rate of up to (4.6%), and this increase is due to the increase in capital, reserves and retained earnings.

In the field of human resources training, the Bank has organized (19) training programs in various and different fields related to Bank's business during the year in Oman, and the number of participants in them reached (126) participants, as the continuation in qualification and training will enhance the capabilities of the employees so that they can refine their job skills and performance of duties and responsibilities assigned to them in the required manner.

The percentage of Omanis working in the Bank is about (99%) of the total number of employees, and it is thus considered at the forefront of banks operating in Oman in achieving this percentage.

Oman Housing Bank continues its victorious journey, providing its distinguished banking services through its branches in many governorates and states of Oman, within a framework of strategic planning system that responds to the needs of society and its members, and meets their aspirations.

The Bank is looks forward to the future as it supported by the gains made in real estate development over the past decades, and seeks to continue its role, as one of the development and urbanization's pillars, and looks forward to achieve more goals in various Banks' operations fields by completing a feasibility study for adding new banking products to support the Bank's revenues in line with the government's development plans and to achieve the Bank's lofty mission in providing suitable housing for Omani families.

Peace, mercy and blessings of God ,,,

Moosa bin Masaud Al-Jadidi

Legal Disclosure under Basel II Pillar III

1. Risk Management

The Board of Directors plays an important role in overall supervision of risk management processes to ensure that risk management requirements were properly implemented and that the Bank is operating within the prescribed limits.

The Board approves risk management policies and sets acceptable risk limits, as well as adopting the capital adequacy assessment process.

The Board has set up a committee (Finance and Risk Management) to assist the Board in proposing and developing risk management policies, proposing acceptable levels of risk, establishing methods for identifying, measuring and controlling risks, monitoring the compliance of the Bank's units with risk standards and limits, and reviewing the efficiency and effectiveness of the Risk Management Department operations.

2. Disclosure Policy

The Bank has an official policy derived from Basel II - Disclosure requirements under Pillar III - approved by the Board of Directors in line with the requirements of the Central Bank of Oman.

3. Field of Application

The Bank operates through its branch network in Oman and the subsequent data on the capital structure is consolidated for the operations of all branches of the Bank. The Bank has no subsidiaries and is not part of any group.

4. Capital Structure

The Bank's regulatory capital is divided into (3) levels:

Level 1*

Basic capital, includes: printing and Paid-up capital, statutory reserve, special reserve, retained earnings.

There are no innovative capital instruments in the capital. The paid-up share capital represents (100,000) shares, value of each RO 1. The Bank deducts 10% of its annual profits in favour of the statutory reserve. The deduction shall not be suspended unless the balance of this account equals one third of the capital. This reserve is not available for distribution and the Ordinary General Assembly may decide to create optional reserve accounts not exceeding 20% of the net profit for the year after deducting the statutory reserve. The purpose of the retained earnings is to strengthen the financial position of the Bank and to meet any unforeseen circumstances.

Level 2*

Additional capital includes:

General provision for loan losses (not exceeding 1.25%) of assets weighted by credit risk without risk weighted assets.

The ECL in stage (1) is 100% and in the stage (2) is 20% of ECL till 31-Dec-19 (Base year), up to 1.25% of credit risk-weighted assets) and Incremental Stage 2

Level 3*

Short-term loan to meet market risk:

The Bank does not currently have level (3) capital.

The Bank's capital structure is as follows:

Composition of the regulatory capital at 31 December 2021

Tier (1) Basic Capital	RO (000's)
Paid - Up Capital	100.000
Legal Reserve	28.127
Special Reserve	70.253
Retained Earnings	88.967
Total of Level (1)	287.347
Level (2) Additional Capital	
Provisions for Loan Losses	2,652
Total of Level (2)	289,999

5. Capital Adequacy

The Bank's capital adequacy is computed in accordance with the Basel II guidelines along with the Central Bank of Oman guidelines, using the standardized methodology for calculating credit risk and market, if any, with the application of the simple methodology for the inclusion of collateral. Moody's rating is also taken to calculate the risk of claims of the Banks and other financial institutions.

The Bank has a policy of maintaining a sufficient and strong capital base commensurate with the nature of its long-term lending activity to meet the risk of unexpected losses or difficulties. Despite the strength of the Bank's capital base which enables it to cope with various conditions and uncertainties, however the Board, in order to be more cautious to response to the developments, decided to increase the capital adequacy ratio at a rate of 2%, higher than the targeted regulatory level set by the Central Bank of Oman (11%).The Bank's official capital adequacy ratio is (13.5%) including a reserve ratio for capital preservation., as it is evident from the following data, the actual capital adequacy ratio stood at the end of the year (71.79%)

The quantitative calculation of the Bank's capital adequacy ratio is as follows:			
Details Amounts in thousands Riyal Omani	Total balances (Book value)	Net balances (Book value)*	Risk Weighted Assets
On-balance sheet items	655,335	652,125	238,540
Off-balance sheet items	40,832	8,853	3,098
Total	696,167	660,978	241,638
CET 1 Capital			287,347
Additional Tier I			-
Total Tier I capital			287,347
Tier II Capital			2,652
Total Regulatory Capital			289,999
Capital requirements for credit risk		241,638	32,621
Capital requirements for market risk		115,403	15,579
Capital requirements for operational risk		46,931	6,336
Total Capital Risk		403,972	54,536
Capital Adequacy Ratio – First Level			71%
Capital Adequacy Ratio - Gross			71.79%

* Net after deduction of provisions, interest saved and eligible guarantees.

6. Risks and Reserves Taken or (Precautions)

a. 6/1 Credit Risk:

Credit risk arises from all products and services when counterparties fail to meet payment obligations in accordance with the terms and conditions of the contract. Although credit granted by the Bank is housing loans to citizens and has real estate and geographically limited collateral within the Sultanate of Oman, however risks may arise in some cases by not covering the value of these guarantees to the full obligations owed by the customer. Approvals for the granting of credit by the executive management within specific ceilings, standards, prudent practices and authority approved by the Board of Directors, in order to minimize potential losses and keep exposure to credit risk within low limits and acceptable rates.

The Bank follows the Standardized Approach for the calculation of credit assets risk-weighted at a rate (35%) of the housing loans subsidized by the Government of the Sultanate of Oman, at a rate of (100%) to the other, also the Bank determine the amount of potential credit following the classification due to credit losses under the circulation of the Central Bank of Oman (BM977) dated 25 September 2004, taking into account the market value of real estate guarantees by (50%).

Given that credit granted by the Bank is limited to one type and within a single geographical area; quantitative disclosure is limited to the following R.O. (000's):		
Type of credit	**Average at current period**	**Current status as on 31/12/2021**
Housing loans for citizens subsidized by the Government of the Sultanate of Oman	588,923	608,638
Other housing loans to citizens (un subsidized)	9,848	8,827
Total	598,771	617,465

Total Loan Movements R.O. (000's): IFRS 9

Details	Stage 1	Stage 2	Stage 3	Total
Opening balance	579,153	1,399	5,076	585,628
Migration / change (+/-)	(339)	1	338	-
New loans	75,439	-	-	75,439
Recovery of loans	37,504	19	134	37,657
Loans written off				
Closing balance	616,749	1,381	5,280	623,410
Total provisions	2,287	448	3,210	5,945

b. 6/2 Market Risk:

Market risk is the risk of changes in the value of securities or transactions due to movements in market factors.

The Bank's budget items currently include any assets or liabilities that are subject to change at the rate of exchange (KWD loan in Kuwaiti Dinars). Interest rate risk may arise directly in the event of an increase in interest rates on short-term deposits or medium-term loans, while interest rates on lending to customers are fixed, and the bank tries to follow the policy of financing through long-term loans to avoid these risks or government loans at a fixed rate. The Bank's final accounts including a distribution of assets and liabilities over a number of predetermined time bands to indicate the sensitivity gap to interest rates.

c. 6/3 Liquidity Risk:

Liquidity risk is the risk of non-availability of enough money in the bank to meet its obligations when due and caused general liquidity risk from the incompatibility of inflows and outflows of funds. The Bank follows a prudent policy in managing liquidity by maintaining arrangements for the provision of cash ready to meet short-term obligations. Liquidity management is managed by reducing the gap between requirements of the assets and liabilities wherever possible and by borrowing medium and long term where necessary to ensure that liquidity is always sufficient to meet the Bank's obligations as due. The Bank's final accounts include an analysis of the asset and liability maturities on a number of predetermined time bands to demonstrate the liquidity gap.

d. 6/4 Operational Risks:

Operational risk is the risk of loss resulting from the inadequacy or failure of internal processes, employees, systems or due to external factors, and others arising from legal and regulatory requirements. The Bank follows the basic indicator method of measurement, which requires taking 15% of income for last three years to determine risk capital for operational transactions.

Planning for Business Continuity:

Managing the continuity of the work is implementation and management of preventive measures, planning and preparation to ensure that the Bank can continue to work after an emergency or malfunctioning operation. The Bank ensures that its systems and procedures are viable during situations where work is likely to stop. The Bank is continuously improving its current plans by implementing an active work plan to ensure continuity of procedures and systems with flexibility and readiness to meet emergency requirements. The business continuity system management committee was charged with responsibility of formulating, adopting, modifying, testing and maintaining the bank's continuity plans. The committee reviews and agrees on the strategic information on business continuity assessment and planning, ensuring continuity of business activity, and that the responsibility for planning and maintenance is understood across all fields of work.

In order to strengthen the business continuity plan framework, the Bank has:

- Conducted a Training sessions in the continuity of work for the Bank's staff in order to enhance the concepts and mechanisms of work for continuity of work.
- Conducted evacuation training at Bank headquarters.

Crowe

Crowe Mak Ghazali llc
Level 5, The Office, Al Khuwair
P.O. Box 971, P.C. 131
Sultanate of Oman
T +968 2403 6300
F +968 2458 7588
www.crowe.om
CR. No 1/48862/7

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN HOUSING BANK SAOC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Oman Housing Bank SAOC ('the Bank'), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code) 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 the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Bank as at 31 December 2020 were audited by another auditor, whose report dated 30 March 2021, expressed an unmodified opinion on those financial statements.

Other information

Those charged with governance and management are responsible for other information. Other information consists of the information included in the Board of Director's report and legal disclosure under Basel II Pillar III (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the Bank's complete Annual Report and Chief Executive Officer's Speech, which is expected to be made available to us after that date.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN HOUSING BANK SAOC (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information 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 obtained prior to the date of auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Bank's Annual Report and Chief Executive Officer's Speech, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and the relevant requirements of the Commercial Companies Law, of the Sultanate of Oman and for such internal control as the management 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, management 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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

Crowe

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN HOUSING BANK SAOC (continued)

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Crowe

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN HOUSING BANK SAOC (continued)

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

Report on other legal and regulatory requirements

Further, we report that the financial statements comply in all material respects, with the relevant requirements of the Commercial Companies Law of the Sultanate of Oman.

CROWE MAK GHAZALI LLC

Karl Jackson
Engagement Partner

Muscat, Sultanate of Oman
28 March 2022

Statement of Financial Position

At 31 December 2020

	Notes	2021 RO'000	2020 RO'000
ASSETS			
Cash and bank balances	5	10,735	14,886
Term deposit	6	13,922	6,942
Mortgage loan accounts	7	617,465	580,077
Other assets	9	2,423	2,387
Due from Government of Oman – share capital	28	-	911
Property and equipment	8	4,747	5,137
Total assets		649,292	610,340
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	10	20,000	23,000
Customers' deposits	11	61,687	73,158
Other liabilities	12	15,086	13,982
Loan from the Arab Fund for Economic and Social Development	13	115,403	80,237
Loan from a bank	14	23,750	25,000
Loans from Government of Oman	15	108,830	103,830
Total liabilities		344,756	319,207
EQUITY			
Share capital	16	100,000	100,000
Legal reserve	17	28,127	26,187
Special reserve	18	70,253	66,760
Impairment reserve	19	8,388	7,857
Revaluation reserve	8, 20	2,801	2,801
Retained earnings		94,967	87,528
Total equity		304,536	291,133
Total liabilities and equity		649,292	610,340
Mortgage loan commitments	27	40,668	16,168

The accompanying notes form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 28/03/2022 in accordance with the resolution of the Board of Directors.

Salam bin Saeed Al-Shaksi

Chairman of The Board of Directors

Moosa bin Masoud Al-Jadidi

Chief Executive Officer

Statement of profit or loss and other comprehensive income

At 31 December 2021

	Notes	2021 RO'000	2020 RO'000
Income			
Interest income	22	35,682	35,360
Interest expense	23	(10,398)	(11,331)
Net interest income		25,284	24,029
Other operating income	24	944	578
Expenses			
Operating expenses	25	(5,641)	(5,589)
Depreciation of property and equipment	8	(486)	(495)
Foreign exchange gain/(loss)		(339)	338
ECL charge on mortgage loans under IFRS 9	30-3-6	(348)	(867)
ECL charge on other financial assets under IFRS 9		(11)	(76)
Total expenses		(6,825)	(6,689)
Profits & Total Comprehensive Income		19,403	17,918
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Total comprehensive income for the year		19,403	17,918
Earnings per share (basic and diluted)	26	0.194	0.179

Statement of changes in equity

At 31 December 2021

	Share capital	Legal reserve	Special reserve	Impair-ment reserve	Reval-uation reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2021	100,000	26,187	66,760	7,857	2,801	87,528	291,133
Comprehensive income:							
Profit for the year	-	-	-	-	-	19,403	19,403
Other comprehensive income							
Revaluation surplus during the year (note 8)	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	19,403	19,403
Transactions with shareholders:							
Dividend for 2020 (note 21)	-	-	-	-	-	(6,000)	(6,000)
Other transactions within equity							
Utilization of CBO provision for current year transferred from impairment reserve - as required by CBO over and above IFRS 9 requirements (refer note 30.3.8)	-	-	-	531	-	(531)	-
Transfer to legal reserve (note 17)	-	1,940	-	-	-	(1,940)	-
Transfer to special reserve (note 18)	-	-	3,493	-	-	(3,493)	-
Total other transactions with equity	-	1,940	3,493	531	-	(5,964)	-
At 31 December 2020	100,000	28,127	70,253	8,388	2,801	94,967	304,536

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity (Cont.)

At 31 December 2020

	Share capital	Legal reserve	Special reserve	Impair-ment reserve	Reval-uation reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2020	100,000	24,395	63,535	8,543	2,801	79,941	279,215
Comprehensive income:							
Profit for the year	-	-	-	-	-	17,918	17,918
Other comprehensive income							
Revaluation surplus during the year (note 8)	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	17,918	17,918
Transactions with shareholders:							
Dividend for 2018 (note 21)	-	-	-	-	-	(6,000)	(6,000)
Other transactions within equity							
Utilization of CBO provision for current year transferred from impairment reserve - as required by CBO over and above IFRS 9 requirements (refer note 30.3.8)	-	-	-	(686)	-	686	-
Transfer to legal reserve (note 17)	-	1,792	-	-	-	(1,792)	-
Transfer to special reserve (note 18)	-	-	3,225	-	-	(3,225)	-
Total other transactions with equity	-	1,792	3,225	(686)	-	(4,331)	-
At 31 December 2020	100,000	26,187	66,760	7,857	2,801	87,528	291,133

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

At 31 December 2021

Cash Flows From Operating Activities	Notes	2021 RO'000	2020 RO'000
Profit For The Year		19,403	17,918
Adjustments:			
Depreciation Of Property And Equipment	8	486	495
Non-Cash Employee Benefits Expense – End Of Service Benefits	12-1	2	(7)
Change In Expected Credit Losses And Other Credit Impairment Charges	30-3-6	394	826
Amounts Written-Off on Transfer of Loan		23	-
Banking And Administrative Service Fees Reserved During The Year	7	96	85
Foreign Exchange (Gain)/Loss		339	(338)
Banking And Administrative Service Fees Written Back During The Year	7	(50)	(126)
Operating Profit Before Changes In Working Capital		20,693	18,853
Changes In Working Capital:			
Term Deposit		(6,980)	(6,942)
Due From Government Of Oman(a)		-	-
Mortgage Loan Accounts	7	(37,828)	(11,375)
Other Assets	9	(36)	(171)
Due To Banks	10	(3,000)	3,000
Customers' Deposits		(11,471)	(14,045)
Other Liabilities	12-1	1,102	(893)
End Of Service Benefits Paid		-	(37)
Net Cash Used In Operating Activities		(37,520)	(11,610)
Cash Flows From Investing Activities			
Proceeds From Disposal Of Property And Equipment		15	8
Purchase Of Property And Equipment		(138)	(70)
Net Cash Used In Investing Activities		(123)	(70)
Cash Flows From Financing Activities			
Loan From The Arab Fund For Economic And Social Development		36,239	20,213
Loan repaid to A Bank		(1,250)	-
Loan from the Government of Oman		5,000	-
Repayment Of Loan From The Arab Fund For Economic And Social Development		(1,412)	(1,395)
Dividend Paid(a)		(5,085)	(2,340)
Net Cash Generated From Financing Activities		33,492	16,478
Net Change In Cash And Cash Equivalents		(4,151)	4,798
Cash And Cash Equivalents At The Beginning Of The Year		14,886	10,088
Cash And Cash Equivalents At The End Of The Year (Note 5)		10,735	14,886

The accompanying notes form an integral part of these financial statements.

(a) A Non Cash Dividend Amounting To RO 3.660 Million Has Been Adjusted Against The Balance Due From Government Of Oman During The Year.

(b) Net Debt Reconciliation Is Disclosed In Note 34 Of These Financial Statements.

Notes to The Financial Statements for Year Ended 31 December 2021

1. Legal status and principal activities

Oman Housing Bank SAOC ("the Bank") was established as a closely held joint stock company in the Sultanate of Oman under the Royal Decree 51/77 and the term of the Bank has been extended under Royal Decree 36/2010 for twenty years commencing from August 2007. The registered address of the Bank is P O Box 2555, Ruwi, Postal code 112. The principal activity of the Bank is to provide housing loans to Omani Nationals through a network of 9 branches in the Sultanate of Oman.

As per the Articles of Association of the Bank, every year, a minimum dividend of 5% of the paid up share capital should be paid to the shareholders.

In accordance with Article 6 of the Royal Decree No. 51/77 and the Royal Decree No.36/2010, borrowers are charged a proportion of the prevailing total rate of banking and administrative service fees, determined in accordance with their monthly income. The Government of the Sultanate of Oman bears the difference between the prevailing total rate of banking and administrative service fees and the reduced rate of banking and administrative service fees in a form of subsidy.

2. Basis of preparation and adoption of new and ammended IFRS

The significant accounting policies adopted in the preparation of the financial statements are set out below. These policies have been constantly applied by the Bank except as stated otherwise.

2.1. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and the applicable requirements of the Central Bank of Oman ('CBO') and the Commercial Companies Law of 2019, on the historical cost basis except for revaluation of lands which are measured at fair value.

IFRS's comprise accounting standards issued by the IASB as well as interpretations issued by the IFRS Interpretation Committee ('IFRIC')

The Bank presents its assets and liabilities broadly in the order of the liquidity in the statement of financial position as this presentation is more appropriate to the Bank's operations and does not distinguish between current and non-current items.

(b) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). These financial statements are presented in Rial Omani rounded off to the nearest thousand, which is the Bank's functional and presentation currency.

(c) Use of estimates and judgments

The preparation of the financial statements in conformation with IFRS requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the Bank's critical accounting policies where judgement is necessarily applied are those which relate to the impairment of mortgage loans carried at amortised cost.

The Estimates And Underlying Assumptions Are Reviewed On An Ongoing Basis. Revisions To Accounting Estimates Are Recognised In The Period In Which The Estimate Is Revised If The Revision Affects Only That Period Or In The Period Of The Revision And Future Periods If The Revision Affects Both Current And Future Periods. The Areas Involving A Higher Degree Of Judgment Or Complexity, Or Areas Where Assumptions And Estimates Are Significant To The Financial Statements Are Disclosed In Note 3.

(d) New And Amended Standards Adopted By The Bank

The Bank Applied The Following Standards And Amendments For The First Time For Their Annual Reporting Period Commencing 1 January 2021:

- COVID-19 Related Rent Concessions (Amendments to IFRS 16) - In March 2021, Standard setters of IFRS issued COVID-19 Related Rent Concessions (Amendment to IFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2021.

(e) New Standards And Interpretations Not Yet Adopted

The forthcoming requirements of new Standard and Amendments to existing Standards are applicable for future reporting periods.

Standards/Amendments to Standards

- COVID-19 Related Rent Concessions beyond 30 June 2021
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020
- Property, Plant and Equipment: Proceeds before intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendment to IFRS 3)
- Classification of Liabilities as Current or Non-Current (Amendment to IAS 1)
- IFRS 17 Insurance Contracts and Amendments to IFRS 17
- Definition of Accounting Estimates (Amendments to IAS 8)
- Disclosure of Accounting Policies (Amendment to IAS 1 and IFRS Practice Statement 2) Transaction Amendment to IAS 12
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment to IFRS 10 and IAS 28)

2.2. Financial assets

Measurement methods

- Amortised cost and effective interest rate

The Amortised Cost Is The Amount At Which The Financial Asset Or Financial Liability Is Measured At Initial Recognition Minus The Principal Repayments, Plus Or Minus The Cumulative Amortisation Using The Effective Interest Method Of Any Difference Between That Initial Amount And The Maturity Amount And, For Financial Assets, Adjusted For Any Loss Allowance.

The Effective Interest Rate Is The Rate That Exactly Discounts Estimated Future Cash Payments Or Receipts Through The Expected Life Of The Financial Asset Or Financial Liability To The Gross Carrying Amount Of A Financial Asset (I.E. Its Amortised Cost Before Any Impairment Allowance) Or To The Amortised Cost Of A Financial Liability. The Calculation Does Not Consider Expected Credit Losses And Includes Transaction Costs, Premiums Or Discounts And Fees And Points Paid Or Received That Are Integral To The Effective Interest Rate, Such As Origination Fees.

Financial Instruments Include Cash And Bank Balances, Term Deposit, Mortgage Loan Accounts, Due From Government Of Oman, Due To Banks, Customers' Deposits, Loans From Government Of Oman, Loan From A Bank, Loan From The Arab Fund For Economic And Social Development And Other Financial Assets And Liabilities.

- Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for the financial assets that become credit impaired (or stage 3) for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. gross amount less ECL).

- Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At origination of financial instruments, the Bank measures them at their fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial instrument, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in statement of profit or loss. Immediately after initial recognition, ECL is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in statement of profit or loss when a financial asset is newly originated.

Classification and measurement

The classification and measurement approach for financial assets reflects the business model in which financial assets are managed and their cash flow characteristics.

Business model assessment

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the mortgage loan book is to hold to collect contractual cash flows, with amounts being collected through collection department if the default happens. This accordingly follows the business model of collecting contractual cash flow and accordingly classified as financial assets at amortized cost.

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

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI, if any.

Assessment whether contractual cash flows are SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

In assessing whether the contractual cash flows are SPPI, the Bank will consider the contractual terms of the financial instrument. This will include 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 consider:

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

There are three principal classification categories for financial assets which are now measured at amortised cost, Fair value Through Other Comprehensive Income ('FVOCI'); and Fair Value Through Profit or Loss ('FVTPL').

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

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

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

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

On initial recognition, an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are 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. A financial asset is classified into one of these categories on initial recognition.

Impairment of financial assets

The Bank assesses on a forward looking basis the ECL associated with the financial assets carried at amortized cost and FVOCI. The Bank recognises a loss allowance for such losses at each reporting date.

The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

No impairment loss is recognised on equity investments.

A loss allowance will be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECL's are the ECL's that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECL's are the portion of ECL's that result from default events that are possible within the 12 months after the reporting date.

Note 30.3.6 Provides More Details On How The Expected Credit Loss Allowance Is Measured.

Measurement of ECLs

The Bank recognises loss allowances at an amount equal to lifetime ECLs for a financial instrument, if the credit risk on that financial instrument has increased significantly since initial recognition considering all reasonable and supportable information. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

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

Unimpaired and without significant increase in credit risk ('SICR') (Stage 1)

ECL resulting from default events that are possible within the next 12-months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Financial assets with SICR but not Credit Impaired (Stage 2)

Financial assets which have experienced a SICR (as defined in note 30.3.3 of the financial statements) are in stage 2; and lifetime ECL is required to be calculated.

Definition of default / Credit Impaired (Stage 3)

Under IFRS 9, the Bank considers a financial asset to be in default when there is available information that the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or the borrower is more than 90 Days Past Due ('DPD') on the respective significant credit obligation to the Bank. In assessing whether a borrower is in default, the Bank mainly considers quantitative factors to determine whether default event has occurred. For IFRS 9 perspective, default will happen when a significant credit obligation is 90 DPD or has been assigned a CBO classification of non-performing loan.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. A financial instrument is considered to no longer be in default, when it no longer meets the default criteria.

Determining SICR

When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort available to the Bank. As a backstop, the Bank presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 DPD. The Bank determines DPD by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. Modifying the contractual terms of a financial instrument may also affect this assessment. The Bank primarily identifies SICR when the financial asset is contractually 30 DPD.

In certain instances, using expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

The Bank monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant and internal guidelines and settings.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are, in general, the following variables:

- Probability of Default ('PD');
- Loss Given Default ('LGD'); and
- Exposure at Default ('EAD').

These parameters are derived (alone or together) from internally developed statistical models based on own historical data or derived from available market data adjusted to reflect forward-looking information where applicable.

Probability of Default ('PD')

PD estimates are estimates at a certain date, which are calculated based on statistical models. These statistical models are primarily based on internally compiled data comprising both quantitative and qualitative factors and are supplemented by external credit assessment data where available.

Loss given default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value, adjusted for applicable haircuts and recovery costs of any collateral that is integral to the financial asset.

Exposure at default (EAD)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Forward-looking information

Where appropriate the Bank incorporates forward-looking information into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and as part of measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities in Sultanate of Oman where the Bank operates, supranational organisations such as the Organisation for Economic Co-operation and Development and the International Monetary Fund and selected private sector and academic forecasters.

The Bank uses (based on data availability and credibility of sources) an analysis of historical data to estimate correlations between macro-economic variables and credit risk and credit losses. At the reporting date, as no statistically valid correlations could be established, the Bank has concluded that the best reasonable and supportable information is the unadjusted historical information.

Please refer note 30.3 to these financial statements for detailed credit risk notes.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

As the Bank only has immaterial modified loans, qualitative criteria to measure the default is considered to have an immaterial effect on the ECL calculated on the financial assets of the Bank.

2.3. Financial liabilities

Classification and measurement

The Bank classifies its financial liabilities, other than loan commitments at amortised cost.

Loan commitments

For loan commitments, which are related to partially drawn loans, loss allowances are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Derecognition of financial assets

Financial Assets, Or A Portion Thereof, Are Derecognised When The Contractual Rights To Receive The Cash Flows From The Assets Have Expired, Or When They Have Been Transferred And Either (I) The Bank Transfers Substantially All The Risks And Rewards Of Ownership, Or (Ii) The Bank Neither Transfers Nor Retains Substantially All The Risks And Rewards Of Ownership And The Bank Has Not Retained Control.

Financial Liabilities Are Derecognised When They Are Extinguished (I.E. When The Obligation Specified In The Contract Is Discharged, Cancelled Or Expired).

Derecognition of financial liabilities

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions.

2.4. Revenue recognition

IFRS 15 Revenue from Contracts with Customers

Recognition of banking and administrative service fees

Banking and administrative service fees accrues on a time proportion basis taking into account the fees related to the loan and rate applicable. If the recovery of banking and administrative service fees on mortgage accounts is classified, its recognition in the statement of profit or loss and other comprehensive income is deferred until it is received in cash.

Recognition of interest income and expense

Interest income and expense are recognised in the statement of profit or loss and other comprehensive income on accrual basis using the effective interest rate method on the principal outstanding.

Recognition of miscellaneous income

Miscellaneous income is credited to income at the time of effecting the transaction.

Recognition of commission and fees

Commission and fees are recognised in the statement of profit or loss and other comprehensive income at the time of effecting the transaction to which they relate.

Recognition of Government contribution to banking and administrative service fees

The proportion of banking and administrative services fees borne by the Government of the Sultanate of Oman is accrued on time apportioned basis and claimed at monthly intervals.

2.5. Mortgage loan accounts

Mortgage accounts originated by providing money directly to the borrower are categorised as originated loans and are stated at cost less any amounts written off, provision for impairment of loans / ECL and unrecognised banking and administrative service fees.

2.6. Property and equipment

Property and equipment except land are stated at cost less accumulated depreciation and impairment losses, if any. Land is stated at revalued amount. The cost of property and equipment is the purchase cost, together with any incidental expenses of acquisition.

Revaluation of lands are carried out every three years on an open market value for existing use basis, by an internal valuer in the engineering department of the bank or by external valuer. Net surplus arising on revaluation is credited to a revaluation reserve, except that a revaluation increase is recognised as income in the statement of profit or loss and other comprehensive income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that asset. On disposal, the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through the statement of profit or loss and other comprehensive income.

Depreciation is calculated so as to write off the cost of property and equipment on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	Years
Buildings	25
Furniture, fixtures and office equipment	5 – 10
Other equipment	5
Motor vehicles	5

Capital work-in-progress is not depreciated until the asset is put to use, and will be depreciated based on the rates applicable to its particular category upon capitalisation.

Gains and losses on disposal of property and equipment are determined as the difference between the carrying amount of the asset and its selling price and are dealt within the statement of profit or loss and other comprehensive income.

2.7. Borrowings

Borrowings of the bank consists of amounts due from banks, customers' deposits, loan from a bank, loan from government of Oman and loan from Arab Fund for Economic and Social Development. Borrowings are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, these are stated at amortised cost with any difference between proceeds, net of transaction costs, and the redemption value recognised in the statement of profit or loss and other comprehensive income over the years of the borrowings on an effective interest rate basis.

2.8. Dividend distribution

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

2.9. Directors' remuneration

Directors' remuneration is calculated in accordance with the requirements of the Commercial Companies Law.

2.10. End of service benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees having regard to the requirements of the Omani Labour Law. For Omani employees the contributions are transferred to the Public Authority for Social Insurance in accordance with the terms of the Royal Decree 61/2013.

The Bank's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value.

2.11. Provision

A provision is recognised in the statement of financial position when the Bank has present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows using a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as cost.

2.12. Other Liabilities

Other liabilities are initially recorded at fair value and are subsequently measured at amortised cost.

2.13. Foreign currencies

Transactions in foreign currencies are translated to Rial Omani at the rate of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. The exchange gains or losses are included in the statement of profit or loss and other comprehensive income.

2.14. Earnings per share

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

2.15. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and all balances with banks maturing within three months from the date of original placement.

2.16. Leases

(a) Company as a lessee
Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

The lease term is considered to be the non-cancellable period for which the Company has the right to use an underlying asset. The lease term is adjusted for periods covered by an option to extend; if it is reasonably certain that the option will be exercised as well as periods covered by an option to terminate the lease; if it is reasonably certain that the option will not be exercised.

2.17. Grants related to assets

Government grants in form freehold land are credited to deferred grants related to assets and is recognized in the statement of profit or loss and other comprehensive income over the useful life of property constructed on that land. Grants are credited to profit or loss and other comprehensive income where no rational basis exists for allocating the grant to a period other than the one in which it was received.

3. Critical accounting estimates and judgments

The preparation of the financial statements in conformation with IFRS requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the Bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of mortgage loan accounts.

3.1. Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL has been defined above in these financial statements.

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

- determining criteria for SICR;
- choosing appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECL.

The Bank has assessed the qualitative criteria to determine SICR in accordance with CBO Circular BM 1149 'Implementation of IFRS 9 on Financial Instruments. However, as the Bank only provides mortgage loan with a loan amount of less than RO 500,000, qualitative criteria to determine SICR are not mandatorily required to be assessed.

4. Fair value estimation

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. Accordingly, variances may arise between the historical cost and the fair value.

The Board of Directors considers that, except for the government of Oman and mortgage loans, the fair value of the assets and liabilities of the Bank are not materially different from their carrying amounts. The assumptions made to determine the fair value are as follows:

Short-term financial instruments
The carrying amounts of cash in hand and at banks, due from Government of Oman and due to banks recognised in the statement of financial position are considered to be a reasonable estimate of the fair values due to their short-term nature.

Mortgage loan accounts
The mortgage loan accounts are expected to run to maturity. It is not practicable to determine the fair value of mortgage accounts as the subsidy received from the Government is capped at an amount that is determined by the Government annually, currently at an interest rate of 6% (2020 – 6%). Consequently, it is not feasible to assess the total return from these accounts for future periods.

Customer deposits
The fair values of savings accounts with no stated maturity approximate its carrying value. The fair value of term deposits is estimated using the rates offered for deposits having similar terms and conditions.

Term loans
The fair values of term loans are estimated using the interest rates offered for loans with similar terms and conditions. Term loan of the Bank includes loan received from Arab Fund for Economic and Social Development.

Loans from the Government of Oman
The fair values of loans 1, 2, 3 and 4 (note 15) from the Government are estimated using the interest rates offered for loans with similar terms and conditions. No fair value can be determined for the subordinated loan in the absence of a repayment schedule.

5. Cash and bank balances

	2021 R.O. (000's)	2020 R.O. (000's)
Cash in hand	194	188
Cash at banks	10,557	14,719
ECL allowance	(16)	(21)
	10,735	14,886

6. Term Deposit

	2021 R.O. (000's)	2020 R.O. (000's)
Time Deposit With Bank	14,000	7,000
ECL Allowance	(78)	(58)
	13,922	6,942

Interest rates on term deposits ranges from 2.7% to 3.25% per annum (2020 - 4.5% per annum) and all term deposits mature within 12 months.

7. Mortgage loan accounts

	2021 R.O. (000's)	2020 R.O. (000's)
Gross mortgage as of 1 January	585,628	574,212
Loans distributed during the year	75,439	47,352
Repayments during the year	(37,657)	(35,936)
Gross mortgage loan accounts as at 31 December	623,410	585,628
ECL provision (refer note 30.3.6)	(5,565)	(5,217)
Reserved banking and administrative service fees (refer note 7.1)	(380)	(334)
Net mortgage loan accounts as at 31 December	617,465	580,077

The CBO provisions are higher than the ECL calculated in accordance with IFRS 9 as at 31 December 2021 as well as 31 December 2020. Therefore, an impairment reserve is kept under equity for the excess impairment requirement as per CBO. This impairment reserve has increased from RO 7,857 as at 31 December 2020 to RO 8,388 as at 31 December 2021 due to a higher CBO provision requirement in 2021 as compared to 2020.

A Detailed Analysis Of The Movement In The ECL Provisions Is Provided In Note 30.3.6.

7.1. The movement in the reserved banking and administrative service fees during the year is as follows:

	2021 R.O. (000's)	2020 R.O. (000's)
As at 1 January	334	375
Banking and administrative service fees reserved during the year	96	85
Banking and administrative service fees written back during the year	(50)	(126)
At 31 December	380	334

Banking And Administrative Service Fees On Classified Loans Are Not Recognised As Income By The Bank So As To Comply With The Rules, Regulations And Guidelines Issued By Central Bank Of Oman Against Mortgage Loan Accounts Which Are Impaired (I.E. Overdue By More Than 89 Days).

The Banking And Administrative Service Fees Rates Varied From 1% To 6% (2020 - 1% To 6%) Per Annum In Addition To The Contribution Received From The Government Of The Sultanate Of Oman.

Summary of mortgage loan accounts is as follows:

	2021 R.O. (000's)	2020 R.O. (000's)
Performing accounts	618,130	580,552
Non-performing mortgage loans	5,280	5,076
Total mortgage loans	623,410	585,628
Non-performing loans for the purpose of CBO (note 30.3.3)		
Substandard (past due 90 - 179 days)	995	2,020
Doubtful (past due 180 - 364 days)	916	644
Loss (past due 365 days and over)	3,369	2,412
	5,280	5,076
Fair Value Of Collateral (Note 30.3.5)	7,636	7,926

8. Property and equipment

Cost or revaluation	Land R.O. (000's)	Buildings R.O. (000's)	Furniture, fixtures and office equipment R.O. (000's)	Other equipment R.O. (000's)	Motor vehicles R.O. (000's)	Capital Work in Progress R.O. (000's)	Total R.O. (000's)
At 1 January 2021	2,893	2,588	1,706	2,463	186	28	9,864
Additions during the year	-	-	23	115	-	-	138
Disposals during the year	-	-	(5)	(34)	(35)	-	(74)
Transfers during the year	-	-	-	28	-	(28)	-
At 31 December 2021	2,893	2,588	1,724	2,572	151	-	9,928
Accumulated depreciation							
At 1 January 2021	-	1,847	1,386	1,336	158	-	4,727
Charge for the year	-	42	62	377	5	-	486
Disposals	-	-	(5)	(7)	(20)	-	(32)
At 31 December 2021		1,889	1,443	1,706	143		5,181
Net book value 31 December 2021	2,893	699	281	866	8	-	4,747
Cost or revaluation							
At 1 January 2020	2,893	2,588	1,673	2,428	186	52	9,820
Additions during the year	-	-	33	9	-	28	70
Disposals during the year	-	-	(1)	(14)	-	(11)	(26)
Transfers during the year	-	-	1	40	-	(41)	-
At 31 December 2020	2,893	2,588	1,706	2,463	186	28	9,864
Accumulated depreciation							
At 1 January 2020	-	1,804	1,336	972	147	-	4,259
Charge for the year	-	43	62	379	11	-	495
Disposals	-	-	(12)	(15)	-	-	(27)
At 31 December 2020	-	1,847	1,386	1,336	158	-	4,727
Net book value 31 December 2020	2,893	741	320	1,127	28	28	5,137

Land And Buildings Includes Lands Granted By The Government Of Sultanate Of Oman At No Cost. The Market Value Of Such Lands At 31 December 2019 (Last Period Of Revaluation) Was RO 2,893,000 (2016 RO 2,410,500). Revaluations Of Lands Are Carried Out Every Three Years On An Open Market Value For Existing Use Basis, By An Internal Valuer In The Engineering Department Of The Bank Or By External Valuers. Accordingly, 9 Plots Were Revaluated During The Year Ended 31 December 2019. Fair Value Of The Land Has Been Classified As Level 2 In Accordance With The Requirements Of Fair Value Hierarchy.

9. Other Assets

	2021 R.O. (000's)	2020 R.O. (000's)
Receivables against Government contribution to banking and administrative service fees (note 28)	2,231	2,146
Prepayments and others	195	244
ECL allowance	(3)	(3)
	2,423	2,387

10. Due to banks

	2021 R.O. (000's)	2020 R.O. (000's)
Deposits from banks	20,000	23,000
	20,000	23,000

Interest Rates On Term Deposits Vary From 4.4% To 4.6% (2020 – 4.7% To 5.1%) Per Annum, Maturing During The Next 12 Months (2020 - Maturing During The Next 12 Months).

11. Customers' deposits

	2021 R.O. (000's)	2020 R.O. (000's)
Saving Accounts	12,078	10,336
Demand Accounts	463	426
Term Deposits From The Shareholders (Note 28)	47,946	61,196
Term Deposits From The Customers	1,200	1,200
	61,687	73,158

Interest rates on savings accounts and terms deposits vary from 1% to 4.5% (2020 – 1% to 5.35%) per annum, maturing in 2022 (2020 – maturing in 2021).

12. Other liabilities

	2021 R.O. (000's)	2020 R.O. (000's)
Customers' Insurance Payable	4,476	3,814
Accrued Interest	6,571	6,192
Retention Payable To Contractors	2,114	2,445
End Of Service Benefits (Note 12.1)	16	14
Other Payables	1,909	1,517
	15,086	13,982

12.1. The movement in the end of service benefits liability during the year is as follows:

	2021 R.O. (000's)	2020 R.O. (000's)
At 1 January	14	44
Expense recognised in the statement of profit or loss and other comprehensive income	2	7
Payments to employees left during the year	-	(37)
At 31 December	16	14

13. Loan from the Arab Fund for Economic and Social Development

During the year 2014, the Arab Fund for Economic and Social Development approved a loan of Kuwaiti Dinar ('KWD') 40,000,000 at an interest rate of 3% per annum. The Bank has fully drawn the facility and has a balance of RO 43,512,642 at 31 December 2021 (2020 - RO 44,647,135). The interest is paid every six months of each year in February and August. The loan is repayable in thirty-six semi-annual equal instalments starting from 1 August 2018 each amounting to KWD 1,100,000 and last instalment amounted to KWD 400,000. This is after grace period of four years from the first withdrawal. As a response to COVID-19, the bank was granted a one-year interest and principle repayment deferral for the year 2020.

During The Year 2019, The Arab Fund For Economic And Social Development Approved Another Loan Of KWD 60,000,000 At An Interest Rate Of 2.5% Per Annum. The Amount Of Loan Drawn As At 31 December 2021 Is KWD 57,000,010 (2020 - KWD 28,378,275) Which Is Equivalent RO 71,890,452 2020 - RO 35,590,107). The Interest Is Paid Every Six Months Of Each Year In February And August. As A Response To COVID-19, The Bank Was Granted A One-Year Interest And Principle Repayment Deferral for the year 2020.

14. Loan from a bank

During the year 2019, local commercial bank approved a loan of RO 25,000,000 at an interest rate of 5.25%. The interest is paid every six months of each year. The loan is repayable semi-annually in 20 equal instalments amounting to RO 1,250,000, started from 28 July 2021.

15. Loans from Government of Oman

	2021 R.O. (000's)	2020 R.O. (000's)
Government loan – 1	34,830	34,830
Government loan – 2	10,000	10,000
Government loan – 3	8,000	8,000
Government loan – 4	31,000	31,000
Government loan – 5	5,000	-
Subordinated loan	20,000	20,000
	108,830	103,830

Loan 1 From The Government Of The Sultanate Of Oman Is Denominated In Rial Omani And Carries Interest Rate Of 5% (2020- 5%) Per Annum.

Loans 2, 3 And 4 From The Government Of The Sultanate Of Oman Are Denominated In Rial Omani And Carry Interest Rate Of 3% (2020- 3%) Per Annum.

The Above Mentioned Government Loans (Note 28) Do Not Have Repayments Terms And Management Believes That These Amounts Will Not Be Paid In The Next 12 Months.

Loan 5 was approved during 2021 from the Government of Sultanate of Oman for RO 40,000,000 and carries an interest rate of 3% per annum. The amount of the loan drawn as at 31 December 2021 is RO 5,000,000. As per the agreement, RO 20,000,000 and RO 15,000,000 will be drawn in the year 2022 in 2023. The interest will be paid in every six months (January and July) for each year. The loan is repayable in 20 equal annually instalments amounting to RO 2,000,000 each, commencing after the grace period of 10 years from the final loan drawdown.

During 2001, The Government Of Sultanate Of Oman Approved A Subordinated Loan Of RO 20,000,000 To The Bank, Of Which RO 12,000,000 Was Disbursed During The Year 2001, RO 2,000,000 Was Disbursed During 2002, And The Balance Of RO 6,000,000 Was Disbursed During 2003. This Is An Interest Free Loan And Repayable On Demand.

16. Share capital

The share capital of the Bank is divided into 100,000,000 (2020 – 100,000,000) shares amounting to RO 100,000,000 (2020 – 100,000,000). The paid up capital of the Bank is 100,000,000 (2020 – 99,085,000) shares of RO 1 each. The shareholding pattern is as follows:

The shareholding pattern is as follows:

	2021 R.O. (000's)	2020 R.O. (000's)
Government of the Sultanate of Oman - Oman Investment Authority (Parent)	61.0%	61.0%
Internal Security Service Pension Fund	6.5%	6.5%
Royal Guard of Oman Pension Fund	6.5%	6.5%
Ministry of Defence Pension Fund	6.5%	6.5%
Royal Oman Police Pension Fund	6.5%	6.5%
Civil Service Employees Pension Fund	6.5%	6.5%
Public Authority for Social Insurance	6.5%	6.5%

In accordance with Royal Decree no 61/2020 dated 04/06/2020 on establishment of the Oman Investment Authority, ownership of all government companies and investments were transferred to the Oman Investment Authority.

17. Legal reserve

In accordance with the Bank's Articles of Association and Commercial Companies Law of Oman 2019, the Bank is required to transfer 10% of its net profit for the year to a legal reserve until the balance of the reserve is equal to one-third of the Bank's paid up capital. The legal reserve is not available for distribution.

18. Special reserve

In accordance with the Articles of Association of the Bank, after appropriation of legal reserve and dividend proposed; the General Assembly may decide to create optional reserve accounts not exceeding 20% (2020 - 20%) of the net profits for the year.

19. Impairment reserve

In accordance with Central Bank of Oman circular number BM 1149 'Implementation of IFRS 9 on Financial Instruments', Where the aggregate specific and general provisions along with reserve interest as per CBO norms is higher than the ECL under IFRS 9, the difference net of taxation should be transferred to the impairment reserve within equity. The impairment reserve is not available for distribution.

20. Revaluation reserve

This reserve represents the fair value gain arising from revaluation of lands after the initial recognition. During the year 2019, the Board of Directors had passed a resolution to revalue the lands owned by the Bank through external valuers, as a result all 9 plots were revaluated.

21. Proposed dividend

The Cash Dividend Of RO 6 Million Has Been Proposed By The Bank's Board Of Directors (2020 – RO 6 Million) And Will Be Submitted For Shareholders' Approval.

22. Interest income

	2021 R.O. (000's)	2020 R.O. (000's)
Banking and administrative service fees	9,936	9,694
Government Contribution To Banking And Administrative Service Fees (Note 28)	25,494	25,205
Interest on short-term deposits	252	461
	35,682	35,360

In accordance with article 6 of the Royal Decree 51/77 and the Royal Decree 36/2010, borrowers are charged a proportion of the prevailing total rate of banking and administrative service fees, determined in accordance with their monthly income. The Government of the Sultanate of Oman bears the difference between the prevailing total rate of banking and administrative service fees and the reduced rate of banking and administrative service fees in a form of subsidy. For the year 2021, the subsidy amount was RO 25,494,407 (2020 - RO 25,205,317).

23. Interest expense

	2021 R.O. (000's)	2020 R.O. (000's)
Interest on loans from the Government of Oman (note 28)	3,241	3,212
Interest on customers' deposits	3,205	4,857
Interest on loan from a bank	1,281	1,280
Interest on loan from Arab Fund for Economic and Social Development	2,671	1,982
	10,398	11,331

24. Other operating income

	2021 R.O. (000's)	2020 R.O. (000's)
Fees and commissions	825	567
Miscellaneous income	119	11
	944	578

25. Operating expenses

	2021 R.O. (000's)	2020 R.O. (000's)
Staff Expenses	4,512	4,541
Building Overhead	200	182
Information Technology Overhead	396	381
Communication Costs	50	62
Travelling Expenses	10	12
Fees And Management Cost	152	129
Board Of Directors' Remuneration - Proposed	40	20
Board Of Directors' Meeting Expenses And Sitting Fees (Note 28)	29	38
Security Service Fees	124	114
Sundry Expenses	128	110
	5,641	5,589

26. Earnings per share (basic and diluted)

The basic earnings per share has been derived by dividing the profit for the year attributable to the shareholders by the weighted average number of shares outstanding during the year. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

	2021	2020
Net profit for the year (RO'000)	19,403	17,918
Weighted average number of shares outstanding (shares'000)	100,000	100,000
Earnings per share - basic and diluted (RO)	0.194	0.179

27. Mortgage loan commitments

	2021 R.O. (000's)	2020 R.O. (000's)
Mortgage Loan Accounts - Approved But Not Disbursed	40,823	16,230
ECL Allowance	(164)	(62)
	40,668	16,168

28. Related parties

The Bank's related parties include the parent, Government of Sultanate of Oman – Ministry of Finance and related entities, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced by key management personnel or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and includes members of the Boards of Directors of the Bank.

The bank has entered into transactions with Government of Oman, its directors, key management and other entities over which certain directors are able to exercise significant influence in the ordinary course of business.

Analysis of the related party transactions with related parties or holders of 10% or more of the Bank's shares, ("Significant shareholders") or their family members during the year is as follows:

	2021 R.O. (000's)	2020 R.O. (000's)
Government		
Government contribution to banking and administrative service fees (note 22)	25,494	25,205
Interest on loans from the Government of Oman (note 23)	3,241	3,212
Directors		
Board of Directors' meeting expenses and sitting fees (note 25)	29	38
Board of Directors' remuneration - proposed (note 25)	40	20
Amount due (to) / from related parties:		
Loans from Government of Oman (note 15)	(108,830)	(103,830)
Interest accrued on 'loans from Government of Oman'	(1,942)	(1,912)
Receivable against Government contribution to banking and administrative service fees (note 9)	2,228	2,143
Due from Government of Oman – Share capital (net of ECL) (note 16)	-	911
Term deposits from the shareholders (note 11)	(47,946)	(61,196)
Key management		
Mortgage loan accounts	292	218
Banking and administrative service fees	4	4

All loans to related parties are performing.

Compensation of the key management personnel is as follows:		
Salaries and allowances	350	341
Other benefits	80	57
	430	398

29. Capital 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 Through The Optimisation Of The Debt And Equity Balances. The Bank's Capital Comprises Debts That Include Borrowings And Equity Attributable To Shareholders, Comprising Issued Capital, Reserves And Retained Earnings Under Notes 16 To 20

(a) Gearing ratio

The Bank's financial Risk Management Committee reviews the capital structure on a semi annual basis. As part of this review, the committee considers the cost of capital and the risk associated with each class of capital. The debt to equity ratio at the reporting date is as follows:

	2021 R.O. (000's)	2020 R.O. (000's)
Debt	315,929	293,263
Equity	304,536	291,133
Debt to equity ratio	103.7%	100.7%

Debt includes due from banks, deposits from shareholders, loan from a bank, loan from Government of Oman and loan from the Arab Fund for Economic and Social Development. Equity includes all the capital and reserves of the Bank.

(b) Capital adequacy

Capital management is guided by the CBO through circular BM 1009 (Guidelines on BASEL II) and regulatory capital under BASEL III framework. Capital adequacy is calculated on quarterly intervals and reported to the CBO. Banks are required to maintain minimum capital adequacy ratio including capital conservation buffer in accordance with CBO stipulated guidelines.

	2021 R.O. (000's)	2020 R.O. (000's)
Capital base		
Tier 1	287,347	273,560
Tier 2	2,652	2,553
Total capital base	289,999	276,113
Risk weighted assets		
Credit risk - on balance sheet items	238,540	223,541
Credit risk - off balance sheet items	3,098	1,533
Operational risk	46,931	45,128
Market risk	115,403	80,237
Total risk weighted assets	403,972	350,439
Capital adequacy ratio	71.79%	78.79%

30. Risk management policies

Risk management is the process by which the Bank identifies key risks, obtains consistent, understandable risk measures and chooses which risks require reduction and which to increase and by what means and establishes procedures to monitor the resulting risk position. The objective of risk management is to ensure that the Bank operates within the risk levels set by the Bank's Board of Directors, while the various business functions pursue their objective of maximizing the risk adjusted returns. The Bank has exposure to the following core risks from its use of financial instruments:

- Market risk
- Currency risk
- Credit risk
- Liquidity risk

The bank borrows money from the Government, foreign and local financial institutions and local commercial banks at fixed interest rates and for various periods and seeks to earn above average interest margins by investing these funds in providing housing loans. The Bank continuously reviews its policies and internal control systems in order to ensure they include all reasonable procedures to minimise the risks as much as possible.

30.1. Market risk

Market risk is the risk of loss due to adverse changes in interest rates. The Bank does not participate in trading in debts, equity securities, and foreign exchange or derivative instruments.

30.1.1. Interest rate risk

Interest rate risk arises from the possibility that changes in the interest rates and the mis-matches in the amounts of assets or liabilities that mature or re-price during a given period.

The Bank provides housing assistance to Omani nationals by providing supported housing loans in accordance with its objectives. The interest of loan service provided by the Bank carries rates supported by the Government.

The Bank manages this risk by matching the re-pricing of assets and liabilities and through risk management strategies. The loans extended by the Bank are for periods varying from one to over twenty five years are at fixed interest rates, albeit with interest variance clause. However, any re-pricing of the Bank's liabilities by its lenders due to economic factors would result to some extent in interest rate risk. The Bank mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from the Government at fixed interest rates.

Interest rate risk arises in the Bank's statement of financial position as a result of mismatches in the re-pricing of interest rate sensitive financial assets and liabilities. The Bank mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from its lenders at fixed interest rates.

The interest rate risk is shown in the following tables.

The Bank's exposure to interest rate risk is shown below (31 December 2021).

31 December 2021	Interest Rate %	Up to 1 month R.O. (000's)	1 - 3 months R.O. (000's)	3 - 6 months R.O. (000's)	6 - 9 months R.O. (000's)	9 - 12 months R.O. (000's)	1 - 3 years R.O. (000's)	3 - 5 years R.O. (000's)	More than 5 years R.O. (000's)	Non Sensi-tive R.O. (000's)	Total R.O. (000's)
Assets											
Cash and bank balances		-	-	-	-	-	-	-	-	10,735	10,735
Term Deposit	2.7-3.25	-	-	12,936	-	986	-	-	-	-	13,922
Mortgage loan accounts	1-6	4,001	7,964	11,935	11,919	12,589	93,569	90,648	384,840	-	617,465
Property and equipment		-	-	-	-	-	-	-	-	4,747	4,747
Other assets		-	-	-	-	-	-	-	-	2,423	2,423
Total assets		4,001	7,964	24,871	11,919	13,575	93,569	90,648	384,840	17,905	649,292
Liabilities and equity											
Due to banks	4.4-4.6	-	-	5,000	15,000	-	-	-	-	-	20,000
Customers' deposits	1-4.5	627	627	15,754	627	20,261	3,135	17,520	3,136	-	61,687
Loans from the Government of Oman	3-5	-	-	-	-	-	-	-	88,830	20,000	108,830
Loan from the Arab Fund for Economic and Social Develop-ment	2.5-3	-	1,404	-	1,404	-	5,616	11,616	95,363	-	115,403
Loan from a bank	5.25	1,250	-	-	1,250	-	5,000	5,000	11,250	-	23,750
Other liabilities		-	-	-	-	-	-	-	-	15,086	15,086
Total equity		-	-	-	-	-	-	-	-	304,536	304,536
Total liabilities and equity		1,877	2,031	20,754	18,281	20,261	13,751	34,136	198,579	339,622	649,292
Interest rate sensitivity gap		2,124	5,933	4,117	(6,362)	(6,686)	79,818	56,512	186,261	(321,717)	-
Cumulative gap		2,124	8,057	12,174	5,812	(874)	78,944	135,456	321,717	-	-

The Bank's exposure to interest rate risk is shown below (31 December 2020).

31 December 2020	Interest Rate %	Up to 1 month R.O. (000's)	1 - 3 months R.O. (000's)	3 - 6 months R.O. (000's)	6 - 9 months R.O. (000's)	9 - 12 months R.O. (000's)	1 - 3 years R.O. (000's)	3 - 5 years R.O. (000's)	More than 5 years R.O. (000's)	Non Sensi-tive R.O. (000's)	Total R.O. (000's)
Assets											
Cash and bank balances		-	-	-	-	-	-	-	-	14,886	14,886
Term Deposit	4.5	-	-	-	6,942	-	-	-	-	-	6,942
Mortgage loan accounts	1-6	3,668	7,322	10,970	10,950	11,452	86,140	83,534	366,041	-	580,077
Due from Government of Oman – share capital		-	-	-	-	-	-	-	-	911	911
Property and equipment		-	-	-	-	-	-	-	-	5,137	5,137
Other assets		-	-	-	-	-	-	-	-	2,387	2,387
Total Assets		3,668	7,322	10,970	17,892	11,452	86,140	83,534	366,041	23,321	610,340
Liabilities and equity											
Due to banks	4.70-5.10	5,000	8,000	10,000	-	-	-	-	-	-	23,000
Customers' deposits	1-5.35	538	538	18,458	14,538	12,653	2,691	2,691	21,051	-	73,158
Loans from the Government of Oman	3-5	-	-	-	-	-	-	-	83,830	20,000	103,830
Loan from the Arab Fund for Economic and Social Develop-ment	2.5-3	-	-	-	1,404	-	5,616	8,618	64,599	-	80,237
Loan from a bank	5.25	-	-	-	1,250	-	5,000	5,000	13,750	-	25,000
Other liabilities		-	-	-	-	-	-	-	-	13,982	13,982
Total equity		-	-	-	-	-	-	-	-	291,133	291,133
Total liabilities and equity		5,538	8,538	28,548	17,192	12,653	13,307	16,309	183,230	325,115	610,340
Interest rate sensitivity gap		(1,870)	(1,216)	(17,488)	(700)	1,201	72,833	67,225	182,811	(301,794)	-
Cumulative gap		(1,870)	(3,086)	(20,574)	(19,874)	(21,075)	51,758	118,983	301,794	-	-

30.2. Currency risk

Currency risk arises as a result of fluctuations in the value of a financial instruments due to changes in foreign exchange rate. Bank does not hold foreign currency or any other foreign currency investment however the Bank has a borrowing in KWD. Therefore, changes in the KWD affect the statement of profit and loss and other comprehensive income of the Bank.

A change in the KWD by +1/-1% will increase/decrease the profit of the Bank by RO 1,154,031 as at 31 December 2021 (2020 - RO 794,000).

During the year ended 31 December 2021, the bank made an unrealized exchange loss of RO 339,193 (2020 unrealized exchange gain of RO 338,369)

30.3. Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customer, client or market counter parties fail to fulfil their contractual obligations to the Bank. Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. The function of credit risk management is to maximise the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Bank's risk exposure. Credit Risk Management process of the Bank begins with the risk policy, updated regularly, which clearly defines parameters for each type of risks assumed by the Bank.

30.3.1. Credit risk measurement

(a) Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of financial assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using PD, EAD and LGD.

30.3.2. Expected credit loss measurement

IFRS 9 outline a 'three stage models' for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a Significant Increase in Credit Risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

ECL calculation methodology has been defined in detail in note 2.2 of these financial statements.

30.3.3. Impact Of COVID 19 On Expected Credit Loss Measurement

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 Oman Has 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 And Sectors.

30.3.3. Impact Of COVID 19 On Expected Credit Loss Measurement (Cont.)

Governments And Regulatory Authorities Across The Globe Have Implemented Several Measures To Contain The Impact Of The Spread Of The Virus. In Line With This, The Central Bank Of Oman (CBO), Also Instituted A Host Of Measures To Protect The Stability Of Country's Economy. These Measures Include Deferral Of Loan Instalments For The Affected Borrowers, Deferment And Waiver Of Interest/Profit For Affected Omani Nationals Employed In Private Sector, Lowering Of Regulatory Capital Ratios And Increasing The Lending Ratio Etc.. These Measures Have Been Extended Until 31 December 2021.

The Bank's Home Loan Portfolio Comprises Entirely Of Nationals, Most Of Whom Are Employed In Government Sector And Hence This Segment Is Expected To Largely Remain Insulated From Job Cuts And Salary Reductions. 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 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.

The Bank's ECL models are constructed and calibrated primarily using historical default trends and conservative haircut adjusted collateral values. As required by IFRS 9, the assessment of Significant Increase in Credit Risk (SICR) and the measurement of ECLs should be based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, do not automatically lead to loans being measured on the basis of lifetime losses. However, after careful consideration, the Bank has decided as a conservative measure to calculate the ECL on loans that have been deferred, 420 loans amounting to RO 12.5 million (31 December 2020: 402 loans amounting to RO 12.5 million), using the higher computed probability of default (PD) for loans in the 1 to 30 day category instead of the zero day category. In case of customers requesting loan deferrals, the Bank will simply extend the original maturity date of the loan to compensate for the deferral period. The Bank has determined that the modifications due to deferment of instalment and waiver of interest allowed in line with CBO relaxation measures did not result in derecognition of financial assets. Further, the impact of day one modification loss was not considered material for the period.

30.3.4. Maximum exposure to credit risk financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments, including mortgage loan commitments for which an ECL allowance is required to be calculated. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on the financial instruments of the Bank.

	2021			
	Stage 1	Stage 2	Stage 3	Total
	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
Credit Grade				
Standard	616,749	957	-	617,706
Special mention	-	424	-	424
Substandard	-	-	995	995
Doubtful	-	-	916	916
Loss	-	-	3,369	3,369
Gross carrying amount	616,749	1,381	5,280	623,410
Loss allowance	(2,287)	(444)	(2,834)	(5,565)
Reserved interest (note 7)	-	(4)	(376)	(380)
Carrying amount	614,462	933	2,070	617,465
	2020			
	Stage 1	Stage 2	Stage 3	Total
	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
Credit Grade				
Standard	579,153	823	-	579,976
Special mention	-	576	-	576
Substandard	-	-	2,020	2,020
Doubtful	-	-	644	644
Loss	-	-	2,412	2,412
Gross carrying amount	579,153	1,399	5,076	585,628
Loss allowance	(2,126)	(429)	(2,662)	(5,217)
Reserved interest (note 6)	-	(3)	(331)	(334)
Carrying amount	577,027	967	2,083	580,077

	2021		
	Gross	ECL Provision	Net
	R.O. (000's)	R.O. (000's)	R.O. (000's)
Bank Balances	10,557	(16)	10,541
Term Deposits	14,000	(78)	13,922
Due From Government	-	-	-
Other Assets	2,231	(3)	2,228
	26,788	(97)	26,691
	2020		
Bank Balances	14,719	(21)	14,698
Term Deposits	7,000	(58)	6,942
Due From Government	915	(4)	911
Other Assets	2,146	(3)	2,143
	24,780	(86)	24,694

30.3.5. Collateral and other credit enhancements

The Bank Employs A Range Of Policies And Practices To Mitigate Credit Risk. The Most Common Of These Is Accepting Collateral For Housing Loans Advanced. The Bank Has Internal Policies On The Acceptability Of Specific Classes Of Collateral For Credit Risk Mitigation.

The Bank Prepares A Valuation Of The Collateral Obtained As Part Of The Loan Origination Process. This Assessment Is Reviewed Periodically. The Principal Collateral Type For Loans And Advances Is Mortgages Over Residential Properties.

The Bank's Policies Regarding Obtaining Collateral Have Not Changed During The Reporting Period And There Has Been No Significant Change In The Overall Quality Of The Collateral Held By The Bank Since The Prior Period.

The Portion Of The Bank's Financial Instruments Originated By The Mortgage Business Has Sufficiently Low LTV Ratios, Which Result In Low Loss Allowances Being Recognised In Accordance With The Bank's Expected Credit Loss Model.

The Bank Closely Monitors Collateral Held For Financial Assets Considered To Be Credit-Impaired, As It Become More Likely That The Bank Will Take Procession Of Collateral To Mitigate Potential Credit Losses. Mortgage Financial Assets That Are Credit Impaired And Related Collateral Held In Order To Mitigate Potential Losses Are Shown Below.

	2021	2020
	R.O. (000's)	R.O. (000's)
Mortgage credit-impaired assets		
Gross exposure	5,280	5,076
Expected credit losses	(2,834)	(2,662)
Carrying exposure	2,446	2,414
Fair value of collateral held	7,636	7,926

The following table shows the distribution of LTV ratios for the Bank's mortgage credit-impaired assets:

	2021	2020
	R.O. (000's)	R.O. (000's)
Lower than 50%	771	976
50 to 60%	1,090	781
61 to 70%	1,048	1,241
71 to 80%	913	971
81% to 90%	1,122	711
91 to 100%	143	80
Higher than 100%	193	316
Gross carrying amount	5,280	5,076

30.3.6. Loss allowance

The loss allowance recognised in the reporting period is impacted by a variety of factors, as described below:

- Transfers between stage 1 and stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the reporting period, and the consequent up-grading (or down-grading) between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognised during the reporting period, as well as releases for financial instruments de-recognised in the reporting period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the reporting period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Financial assets fully or partially derecognised during the period; and
- Write-offs of allowances related to financial assets that were written off during the reporting period.

The following tables reconciles the loss allowance between the beginning and the end of the annual period:

	Stage 1	Stage 2	Stage 3	Total
Mortgage loan accounts including loans commitments	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
ECL as at 1 January 2021	2,126	432	2,993	5,551
Movements during the year				
Transfers between Stages	(21)	(541)	562	-
Net impairment charge / (release) for the year	182	557	(345)	394
Loss allowance as at 31 December 2021 year	2,287	448	3,210	5,945

	Stage 1	Stage 2	Stage 3	Total
Mortgage loan accounts including loans commitments	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
ECL as at 1 January 2020	1,814	151	2,760	4,725
Movements during the year				
Transfers between Stages	(40)	(580)	620	-
Net impairment charge / (release) for the year	352	861	(387)	826
Loss allowance as at 31 December 2020 year	2,126	432	2,993	5,551

30.3.7. Write-off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

30.3.8. Comparison of provision held as per IFRS 9 and required as per CBO norms for mortgage loans, including commitments

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO and IFRS 9	Net Carrying Amount as per CBO norms	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
As at 31 December 2021									R.O. (000's)
(1)	(2)	(3)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4) - (10)	(8) = (3) - (5) – (10)	(9)	(10)
Standard	Stage 1	657,581	12,336	2,287	10,049	645,245	655,294	35,430	-
	Stage 2	957	19	246	(227)	938	711	-	-
	Stage 3	-	-	-	-	-	-	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	424	8	202	(190)	412	222	-	4
	Stage 3	-	-	-	-	-	-	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	995	247	590	(335)	740	405	-	8
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	916	236	518	(269)	667	398	-	13
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,369	1,204	2,102	(543)	1,810	1,267	-	355
Other items not covered under CBO	Stage 1	26,788	-	97	(97)	26,788	26,691	252	-
Total	Stage 1	684,369	12,336	2,384	9,952	672,033	681,985	35,682	-
	Stage 2	1,381	27	448	(417)	1,350	933	-	4
	Stage 3	5,280	1,687	3,210	(1,147)	3,217	2,070	-	376
	Total	691,030	14,050	6,042	8,388	676,600	684,988	35,682	380

30.3.8. Comparison of provision held as per IFRS 9 and required as per CBO norms for mortgage loans, including commitments (Contd.)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO and IFRS 9	Net Carrying Amount as per CBO norms	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
As at 31 December 2020									R.O. (000's)
(1)	(2)	(3)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4) - (10)	(8) = (3) - (5) – (10)	(9)	(10)
Standard	Stage 1	595,383	11,583	2,126	9,457	583,800	593,257	34,899	-
	Stage 2	823	16	214	(198)	807	609	-	-
	Stage 3	-	-	-	-	-	-	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	576	11	218	(204)	562	358	-	3
	Stage 3	-	-	-	-	-	-	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,020	500	1,118	(598)	1,500	902	-	20
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	644	162	374	(206)	476	270	-	6
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,412	888	1,501	(308)	1,219	911	-	305
Other items not covered under CBO	Stage 1	24,780	-	86	(86)	24,780	24,694	461	-
Total	Stage 1	620,163	11,583	2,212	9,371	608,580	617,951	35,360	-
	Stage 2	1,399	27	432	(402)	1,369	967	-	3
	Stage 3	5,076	1,550	2,993	(1,112)	3,195	2,083	-	331
	Total	626,638	13,160	5,637	7,857	613,144	621,001	35,360	334

30.3.9. Mortgage loans with renegotiated terms

Loss with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrowers financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable to the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayments or write-off.

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO and IFRS 9	Net Carrying Amount as per CBO norms	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
As at 31 December 2021									R.O. (000's)
(1)	(2)	(3)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4) - (10)	(8) = (3) - (5) – (10)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	613	160	348	(181)	446	265	-	7
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	613	160	348	(181)	446	265	-	7
	Total	613	160	348	(181)	446	265	-	7
As at 31 December 2020									R.O. (000's)
(1)	(2)	(3)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4) - (10)	(8) = (3) - (5) – (10)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	906	270	476	(206)	598	392	-	38
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	906	270	476	(206)	598	392	-	38
	Total	906	270	476	(206)	598	392	-	38

30.3.10. Impairment allowance and loss on mortgage loans

i) Mortgage loans

	As per CBO norms		As per IFRS 9		Difference	
	2021	2020	2021	2020	2021	2020
	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
Provision required as per CBO norms / held as per IFRS 9	14,430	13,494	5,945	5,551	(8,485)	(7,943)
Gross NPL ratio %	0.76%	0.84%	0.76%	0.84%	0.00%	0.00%
Net NPL ratio %	0.48%	0.54%	0.30%	0.35%	(0.17%)	(0.19%)

ii) Mortgage loans and other assets

	As per CBO norms		As per IFRS 9		Difference	
	2021	2020	2021	2020	2021	2020
	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
Provision required as per CBO norms / held as per IFRS 9	14,430	13,494	6,042	5,637	(8,388)	(7,857)

30.4. Liquidity risk

Liquidity risk is the potential inability of the Bank to meet its maturing obligations to a counter party. The Bank's conservative liability management policies are designed to ensure that even in adverse situations the Bank should be in a position to meet its obligations. In normal conditions the objective is to ensure that there are sufficient funds available to meet current financial commitments.

The Board of Directors and the management monitor the Bank's liquidity requirements on a regular basis.

The Bank endeavours to obtain low cost borrowings locally and regionally on both short and long-term bases to finance its loans.

The maturity profile of assets and liabilities is set out below.

The amounts disclosed in table below analyse the Bank's assets and liabilities as on 31 December 2020 into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed are the contractual cash flows. Balances due within 12 months equal their carrying balances, as the impact of the discounting is not significant.

31 December 2021	Up to 1 month R.O. (000's)	1 - 3 months R.O. (000's)	3 - 6 months R.O. (000's)	6 - 9 months R.O. (000's)	9 - 12 months R.O. (000's)	1 - 3 years R.O. (000's)	3 - 5 years R.O. (000's)	More than 5 years R.O. (000's)	Total R.O. (000's)
Assets									
Cash and bank balances	10,735	-	-	-	-	-	-	-	10,735
Term deposit	-	-	12,936	-	986	-	-	-	13,922
Mortgage loan accounts	4,001	7,964	11,935	11,918	12,589	93,569	90,648	384,841	617,465
Property and equipment	-	-	-	-	-	-	-	4,747	4,747
Other assets	2,246	11	64	102	-	-	-	-	2,423
Total assets	**16,982**	**7,975**	**24,935**	**12,020**	**13,575**	**93,569**	**90,648**	**389,588**	**649,292**
Liabilities and equity									
Due to banks	-	-	5,000	15,000	-	-	-	-	20,000
Customers' deposits	627	627	15,754	627	20,261	3,135	17,520	3,136	61,687
Loans from the Government of Oman	-	-	-	-	-	-	108,830	-	108,830
Loan from the Arab Fund for Economic and Social Development	-	1,404	-	1,404	-	5,616	11,616	95,363	115,403
Loam from a bank	1,250	-	-	1,250	-	5,000	5,000	11,250	23,750
Other liabilities	3,337	2,008	2,455	315	3,946	2,987	-	38	15,086
Total equity	-	-	6,000	-	-	-	-	298,536	304,536
Total liabilities and equity	5,214	4,039	29,209	18,596	24,207	16,738	142,966	408,323	649,292
Net liquidity gap	11,768	3,936	(4,274)	(6,576)	(10,632)	76,831	(52,318)	(18,735)	-
Cumulative liquidity gap	11,768	15,704	11,430	4,854	(5,778)	71,053	18,735	-	-

30.4. Liquidity risk (Cont)

31 December 2020	Up to 1 month R.O. (000's)	1 - 3 months R.O. (000's)	3 - 6 months R.O. (000's)	6 - 9 months R.O. (000's)	9 - 12 months R.O. (000's)	1 - 3 years R.O. (000's)	3 - 5 years R.O. (000's)	More than 5 years R.O. (000's)	Total R.O. (000's)
Assets									
Cash and bank balances	14,886	-	-	-	-	-	-	-	14,886
Term deposit	-	-	-	6,942	-	-	-	-	6,942
Mortgage loan accounts	3,668	7,322	10,970	10,950	11,452	86,140	83,534	366,041	580,077
Due from Government of Oman – share capital	-	-	-	-	911	-	-	-	911
Property and equipment	-	-	-	-	-	-	-	5,137	5,137
Other assets	2,143	13	171	60	-	-	-	-	2,387
Total Assets	20,697	7,335	11,141	17,952	12,363	86,140	83,534	371,178	610,340
Liabilities and equity									
Due to banks	5,000	8,000	10,000	-	-	-	-	-	23,000
Customers' deposits	538	538	18,458	14,538	12,653	2,691	2,691	21,051	73,158
Loans from the Government of Oman	-	-	-	-	-	-	-	103,830	103,830
Loan from the Arab Fund for Economic and Social Development	-	-	-	1,404	-	5,616	8,618	64,599	80,237
Loam from a bank	-	-	-	1,250	-	5,000	5,000	13,750	25,000
Other liabilities	2,644	1,389	845	2,385	87	6,592	-	40	13,982
Total equity	-	-	-	-	-	-	-	291,133	291,133
Total liabilities and equity	8,182	9,927	29,303	19,577	12,740	19,899	16,309	494,403	610,340
Net liquidity gap	12,515	(2,592)	(18,162)	(1,625)	(377)	66,241	67,225	(123,225)	-
Cumulative liquidity gap	12,515	9,923	(8,239)	(9,864)	(10,241)	56,000	123,225	-	-

31. Financial assets and liabilities

All financial assets and financial liabilities are measured at amortsed cost.

32. Segmental information

The Bank operates only one business segment of the banking industry and its operating revenues arise from providing finance for housing in the Sultanate of Oman.

Since the Bank's entire mortgage loan accounts have associated risks and returns which are similar, the directors consider all mortgage loan accounts to be a single business. Accordingly, there is only one segment.

In addition all operations of the bank are in the Sultanate of Oman.

33. Taxation

In accordance with the Royal Decree 51/77 and Royal Decree 36/2010 the Bank is exempt from income tax.

34. Net debt reconciliation

	2021 R.O. (000's)	2020 R.O. (000's)
Cash and cash equivalents	10,735	14,886
Borrowings – repayable within one year	(63,204)	(72,379)
Borrowings – repayable after one year	(266,466)	(232,846)
Net debt	(318,935)	(290,339)

	2021 R.O. (000's)	2020 R.O. (000's)
Cash and cash equivalents	10,735	14,886
Government Debt – Interest free	(20,000)	(20,000)
Gross debt – fixed interest rates	(309,670)	(285,225)
Net debt	(318,935)	(290,339)

Liabilities from financing activities	Cash R.O. (000's)	Borrowings due within 1 year R.O. (000's)	Borrowings due after 1 year R.O. (000's)	Total R.O. (000's)
Net debt as at 1 January 2020	10,088	(56,585)	(241,205)	(287,702)
Cash flows, net	4,798	(15,794)	8,359	(2,637)
Net debt as at 31 December 2020	14,886	(72,379)	(232,846)	(290,339)
Cash flows, net	(4,151)	9,175	33,620	(28,596)
Net debt as at 31 December 2021	10,735	(63,204)	(266,466)	(318,935)

Borrowing of the banks consist of due to banks, customer deposits, loans from Government of Oman and Loan from the Arab Fund for Economic and Social Development and Loan from a Bank.

Social Responsibility

Human, Ethical, Legal & Economical Responsibility

Oman Housing Bank welcomes partnership with the private sector in social responsibility programs, the bank looks for opportunities to serve the largest segment of citizens with low and medium income.

The social responsibility program is not limited to Charitable Associations, but also includes human, moral, legal and economic responsibility.

The Bank has established in order to support the movement of housing and construction which contributes in achieving economical progress in the Sultanate. In order to achieve this objective, The Bank granted by virtue of a decree establishing it the privileges and mechanisms of action to enable it to achieve its objectives, particularly the social objectives which the rational government has sought. There have been many changes in the structure of fees for banking and administrative services since the establishment of the bank. All these changes have always been in the interest of the citizen by reducing the burden of fees incurred.

As for the changes that have affected by the government support, these changes did not harm the citizen in any way, but rather carried by the bank, which continues to carry out its mission since its establishment in order to achieve the interests of citizens priority.

The social responsibility of the Bank is achieving through the exercise of its natural role, as a housing lending institution through the many concessional terms under which it can borrow.

Whether in terms of the low level of fees for banking and administrative services to the extent of non-competition or in terms of exemptions of banking and administrative fees issued by the Government from time to time to include borrowers from the bank, for other social conditions, which have a social dimension, aim at relieving the burdens of citizens to the least extent possible.

In a society dominated by social solidarity since time immemorial, such as Omani society, social responsibility in all its contents has been achieved naturally, by moral, behaviour, individual and cluster as this society is a cohesive texture form that everyone feels that besides his rights he has duties towards others, especially towards those who cannot fulfil their own needs by providing them with benefits and driving the damages from them.

By virtue of the official legislations regulating the work of these banks,social responsibility is the result of it , and that is through facilitating easy access offered to citizens, which are not competitive from commercial banks including the exemptions which is carried out from time to time in order to enable citizens to live well and at the lowest possible cost.

The Royal Decree regarding the establishment of the bank was made available to build the housing projects for people with low or medium income or financing them. Such projects are with social dimension and as limited on the low and medium income citizens and its concessional terms. Naturally the Bank can establish such partnerships with the private sector or other socially responsible partnerships that are consistent with the purposes for which the Bank was established.

There are many forms of social responsibility already achieved in our country considering that this responsibility has several dimensions which assimilate in the human, ethical, legal and economic responsibility.


Housing Bank SAOC