# State Bank of India - Muscat Branch

**Financial statements for the year ended 31 December 2021**

## Contents

## State Bank of India - Muscat Branch
## Administration and contact details as at 31 December 2021

| | |
|---|---|
| **Commercial registration number** | 1753525 |
| **Executive Management** | A. Narayana Raja (Chief Executive Officer)<br>Sake Kumar Nayak (Chief Manager - Credit)<br>Ravinder Rawat (Dy Manager - Finance)<br>Satendra Pal Singh (Chief Manager - Client Service) |
| **Registered office** | PO Box 264<br>PC 112<br>Ruwi, Muscat<br>Sultanate of Oman |
| **Auditors** | BDO LLC<br>Suite No. 601 & 602<br>Pent House, Beach One Building<br>Way No. 2601, Shatti Al Qurum<br>PO Box 1176, Ruwi, PC 112<br>Muscat<br>Sultanate of Oman |

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# Independent Auditor's Report to the Head Office of State Bank of India - Muscat Branch

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of State Bank of India - Muscat Branch (the Branch), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and 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 Branch 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 Branch in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) 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.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Mmanagement is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as 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 Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch'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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Independent Auditor's Report to the Head Office of State Bank of India - Muscat Branch (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 skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch'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 Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Branch 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.

Date: 22 March 2022
Muscat

***BDO LLC***

**State Bank of India - Muscat Branch**
**Statement of financial position as at 31 December 2021**
**(Expressed in Omani Rial '000)**

| **ASSETS** | **Notes** | **31 December 2021** | **31 December 2020** |
|---|---|---|---|
| Cash and balances with Central Bank of Oman | 5 | 2,708 | 1,912 |
| Due from affiliates and other banks | 6 | 29,023 | 24,221 |
| Loans and advances to customers | 7 | 39,182 | 32,575 |
| Investments at fair value through other comprehensive income | 8 | 1,000 | 1,000 |
| Equipment | 9 | 31 | 28 |
| Other assets | 10 | 101 | 516 |
| **Total assets** | | 72,045 | 60,252 |
| **LIABILITIES** | | | |
| Customer deposits | 11 | 6,434 | 7,526 |
| Due to affiliates | 12 | 36,398 | 23,528 |
| Other liabilities | 13 | 194 | 618 |
| Income tax payable | 21 | 81 | 79 |
| **Total liabilities** | | 43,107 | 31,751 |
| **EQUITY** | | | |
| Assigned capital | 14 | 20,050 | 20,050 |
| Reserve deposit | 14 | 500 | 500 |
| Retained earnings | | 8,392 | 7,957 |
| Investment fair value reserve | 8 | (4) | (6) |
| **Total equity** | | 28,938 | 28,501 |
| **Total liabilities and equity** | | 72,045 | 60,252 |
| **Commitments and contingent liabilities** | 15 | 1,932 | 2,424 |

These financial statements, as set out on pages 4 to 58, were approved and authorised for issue by the Head Office on 22 March 2022 and were signed on its behalf by:

**Chief Executive Officer**

**State Bank of India - Muscat Branch**

**Statement of profit or loss and other comprehensive income for the year ended 31 December 2021**

**(Expressed in Omani Rial '000)**

| | Notes | Year ended 31 December 2021 | Year ended 31 December 2020 |
|---|---|---|---|
| Interest income | | 1,353 | 1,087 |
| Interest expense | | (134) | (114) |
| **Net interest income** | | 1,219 | 973 |
| Other operating income | 18 | 240 | 245 |
| Income from investments and placements | 19 | 123 | 298 |
| **Operating income** | | 1,582 | 1,516 |
| **Operating expenses** | | | |
| Staff and administration costs | 20 | (839) | (762) |
| Depreciation | 9 | (11) | (12) |
| | | (850) | (774) |
| **Profit from operations before impairment losses and tax** | | 732 | 742 |
| Impairment losses on financial assets | 7 | (208) | (180) |
| **Profit before tax for the year** | | 524 | 562 |
| Taxation | 21 | (89) | (94) |
| **Net profit for the year** | | 435 | 468 |
| **Other comprehensive income** | | | |
| *To be reclassified to profit or loss in subsequent periods* | | | |
| Change in fair value of FVOCI debt investments | 8 | 2 | (126) |
| **Other comprehensive income/ (loss) for the year** | | 2 | (126) |
| **Total comprehensive income for the year** | | 437 | 342 |

## State Bank of India - Muscat Branch
## Statement of changes in equity for the year ended 31 December 2021
## (Expressed in Omani Rial '000)

| | Assigned capital | Reserve deposit | Retained earnings | Investment fair value reserve | Total |
|---|---|---|---|---|---|
| At 31 December 2019 | 20,050 | 500 | 7,489 | 120 | 28,159 |
| Net profit for the year | - | - | 468 | - | 468 |
| Other comprehensive income | - | - | - | (126) | (126) |
| At 31 December 2020 | 20,050 | 500 | 7,957 | (6) | 28,501 |
| Net profit for the year | - | - | 435 | - | 435 |
| Other comprehensive income | - | - | - | 2 | 2 |
| At 31 December 2021 | 20,050 | 500 | 8,392 | (4) | 28,938 |

## State Bank of India - Muscat Branch
## Statement of cash flows for the year ended 31 December 2021
## (Expressed in Omani Rial '000)

| | *Notes* | Year ended 31 December 2021 | Year ended 31 December 2020 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax for the year | | 524 | 562 |
| **Adjustments for:** | | | |
| Depreciation | 9 | 11 | 12 |
| Provision for expected credit losses | 7 | 208 | 180 |
| Income from investments and placements | 19 | (115) | (290) |
| **Operating profit** | | 628 | 464 |
| | | | |
| **Changes in operating assets and liabilities:** | | | |
| Loans and advances | | (6,815) | (15,509) |
| Other assets | | 453 | (29) |
| Deposits from customers | | (1,092) | (1,294) |
| Due to affiliates | | 12,870 | 23,311 |
| Due from affiliates | | (4,802) | (9,413) |
| Other liabilities | | (424) | 127 |
| **Cash generated from/(used in) operating activities** | | 818 | (2,343) |
| Income tax paid | | (87) | (81) |
| **Net cash from/(used in) operating activities** | | 731 | (2,424) |
| | | | |
| **Investing activities** | | | |
| Purchase of equipment | | (14) | (10) |
| Proceeds from disposal of investments at fair value through other comprehensive income | | - | 2,146 |
| Investments and placements income received | | 79 | 319 |
| **Net cash from investing activities** | | 65 | 2,455 |
| | | | |
| **Net change in cash and cash equivalents** | | 796 | 31 |
| Cash and cash equivalents at the beginning of the year | | 1,382 | 1,351 |
| **Cash and cash equivalents at the end of the year** | 17 | 2,178 | 1,382 |

(Expressed in Omani Rial '000)

**1 Legal status and activities**

State Bank of India - Muscat Branch ("the Branch") is incorporated in the Sultanate of Oman as a foreign branch of State Bank of India ("the Head Office").

The Branch is principally engaged in commercial banking activities in accordance with the banking license issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme.

The principal place of business of the Branch is situated at Central Business District (CBD), Muscat, Oman.

**2 Basis of preparation**

**Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the applicable regulations of the CBO, and presents the financial position of the Branch and the results of its operations as reflected by those transactions that are recorded in Muscat branch.

For consideration of financial information relating to the overall operations of the Head Office, reference should be made to its consolidated financial statements.

The Branch presents its statement of financial position broadly in order of liquidity.

**Basis of presentation**

The financial statements have been prepared under the historical cost convention and going concern assumption, modified by the inclusion of certain assets and liabilities which are stated at their fair values as required by the IFRS. The preparation of financial statements is in conformity with IFRS that requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Branch's accounting policies.

**Functional currencies**

The financial statements are presented in Omani Rials (RO) rounded, except as indicated, to the nearest thousand Omani Rials. The functional currency of the Branch's operation is Omani Rial.

**Standards, amendments and interpretations effective and adopted in the year 2021**

New standards, amendments to existing standards or interpretations to published standards are mandatory for the first-time and have been adopted in the preparation of the financial statements for the year ended 31 December 2021:

| Standard or Interpretation | Title | Effective for annual periods beginning on or after |
|---|---|---|
| Amendments to IFRS 4, 7, 9 & 16 | Interest Rate Benchmark Reform (Phase 2) | 1 January 2021 |
| Amendments to IFRS 16 | Leases: COVID-19-Related Rent Concessions beyond 30 June 2021 | 1 April 2021 |

The amendments provide temporary relief which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

• A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;

• Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and

(Expressed in Omani Rial '000)

**2 Basis of preparation (continued)**

**Standards, amendments and interpretations effective and adopted in the year 2021 (continued)**

**Interest Rate Benchmark Reform (continued)**

• Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The amendment had no impact on the financial statements of the Branch. The Branch intends to use the practical expedients in future periods if they become applicable.

**COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)**

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

(a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic was continuing as at 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021 with earlier application permitted.

This amendment had no impact on the financial statements of the Branch, as there were no rent concessions received during the year.

**Standards, amendments and interpretations issued but not yet effective in the year 2021**

The following new/amended accounting standards and interpretations have been issued, but are not mandatory and have not been adopted in preparing the financial statements for the year ended 31 December 2021:

| Standard or Interpretation | Title | Effective for annual periods beginning on or after |
|---|---|---|
| Amendments to IAS 37 | Onerous Contracts: Cost of Fulfilling a | 1 January 2022 |
| Amendments to IAS 16 | Property, Plant and Equipment: Proceeds before Intended Use | 1 January 2022 |
| Amendments to IFRS 1, 9, 16 and IAS 41 | Annual Improvements to IFRS 2018-2020 | 1 January 2022 |
| Amendments to IFRS 3 | References to Conceptual Framework | 1 January 2022 |
| Amendments to IAS 1 and IFRS practice statement 2 | Disclosure of Accounting Policies | 1 January 2023 |
| Amendments to IAS 8 | Definition of Accounting Estimates | 1 January 2023 |
| IFRS 17 | Insurance Contracts | 1 January 2023 |
| Amendments to IAS 12 | Deferred Tax Related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |

The Branch has not early adopted and does not expect these amendments and standards issued but not yet effective, to have a material impact on the financial statements of the Branch upon adoption.

## 3 Summary of significant accounting polices

A summary of the significant accounting policies adopted in the preparation of these financial statements is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Financial instruments - date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Branch becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

### (b) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management’s intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value and are subsequently measured at amortised cost.

### (c) Cash and cash equivalents

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

### (d) Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the effective interest rate (EIR), while dividend income is recorded in other operating income when the right to payment has been established.

### (e) Investments measured at amortised cost

Investments at amortised cost are those which carry fixed or determinable payments and have fixed maturities and which the Branch has the positive intention and ability to hold to maturity. After initial measurement, investment securities are measured at amortised costs, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The amortisation is included in ‘Interest income’ in profit or loss. The losses arising from impairment of such investments are recognised in profit or loss.

**3 Summary of significant accounting polices (continued)**

**(f) Investment at fair value through other comprehensive income**

Investment at fair value through other comprehensive income include equity and debt securities. Equity investments classified as investment at fair value through other comprehensive income are those which are neither classified as investment at amoritised cost nor designated as investments at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to need for liquidity or in response to changes in the market conditions.

After initial measurement, investment at fair value through other comprehensive income are subsequently measured at fair value. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment of debt securities, the cumulative gain or loss previously reported as “cumulative changes in fair value” within equity, is included in profit or loss for the year. Interest earned whilst holding investment at fair value through other comprehensive income is reported as "interest income" using the EIR. The losses arising from impairment of such investments are recognised in profit or loss and removed from the ‘investment fair value reserve through other comprehensive income’.

**(g) Due from banks and loans and advances to customers**

Due from banks and loans and advances to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the EIR method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in ‘interest income’ in profit or loss for the year.

**(h) Derecognition of financial assets and financial liabilities**

*Financial assets:*

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

- the rights to receive cash flows from the asset have expired; or
- the Branch has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Branch has transferred substantially all the risks and rewards of the asset, or (b) the Branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

**3 Summary of significant accounting polices (continued)**

**(h) Derecognition of financial assets and financial liabilities (continued)**

*Financial liabilities:*

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

**(i) Determination of fair values**

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model.

**(j) Equipment**

Equipment are initially recorded at historical cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all equipment and fixtures. The rates of depreciation are based upon the following estimated useful lives:

| | |
|---|---|
| • Motor vehicles | 3 years |
| · Furniture and fixtures | 3 years |
| · Office equipment | 6-7 years |

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

**(k) Deposits**

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

**(l) Other borrowed funds**

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

**(m) Taxation**

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

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

**3 Summary of significant accounting polices (continued)**

**(m) Taxation (continued)**

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

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

**(n) Financial guarantees**

In the ordinary course of business, the Branch gives financial guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in "other liabilities". Subsequent to initial recognition, the Branch measures such guarantees at the higher of the initial fair value less, when appropriate, cumulative amortisation calculated to recognise the fees in profit or loss for the year in "Net fees and commission income" over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to profit or loss for the year. Any financial guarantee liability remaining is recognised in profit or loss when the guarantee is discharged, cancelled or expires.

**(o) Provisions**

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

**(p) Impairment of financial assets**

The Branch assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognised in profit or loss for the year.

For amounts due from banks and loans and advances to customers which are carried at amortised cost, the Branch first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Branch determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

**3 Summary of significant accounting polices (continued)**

**(p) Impairment of financial assets (continued)**

*Due from banks and loans and advances to customers (continued)*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss for the year. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Branch. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'recoveries from loans and advances written-off'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Branch's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*Investment measured at amortised cost*

For investments at amortised cost, the Branch assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss for the year.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'impairment losses on investments at amortised cost'.

**3 Summary of significant accounting polices (continued)**

**(p) Impairment of financial assets (continued)**

*Investments at fair value through other comprehensive income*

For Investments at fair value through other comprehensive income, the Branch assesses at each reporting date whether there is an objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as investments at fair value through other comprehensive income, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is an evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss is removed from equity and recognised in the profit or loss for the year. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as investments at fair value through other comprehensive income, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original EIR on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

**(q) Off-setting**

Financial assets and financial liabilities are off-set and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to off-set the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(r) Revenue recognition**

Revenue is recognised on the basis of performance obligations as identified by the contract between the parties and in accordance with IFRS 15. The following specific recognition criteria must also be met before revenue is recognised.

*Interest and related income and expense*

For all financial instruments measured at amortised cost, interest bearing financial assets classified as investment at fair value through other comprehensive income and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Branch revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'other operating income'.

*Fee and commission income*

The Branch earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

**3 Summary of significant accounting polices (continued)**

**(r) Revenue recognition (continued)**

*Fee income earned from services that are provided over a certain period of time*

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

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

*Fee income from providing transaction services*

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

*Dividend income*

Dividend income is recognised when the Branch’s right to receive the payment is established.

**(s) Foreign currencies**

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

(ii) Monetary assets and liabilities denominated in foreign currencies are translated into Omani Rial at exchange rates ruling at the reporting date. Realised and unrealised gains and losses are dealt with in profit or loss for the year.

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

**(t) Employees' benefits liabilities**

In respect of Omani employees, contributions are made in accordance with the Oman Social Insurance Law and recognised as an expense in profit or loss as incurred.

For non-Omani employees, provision is made for amounts payable under the Oman Labour Law, based on the employees’ accumulated periods of service at the statement of financial position date. This provision is classified as a non- current liability.

Employee entitlements to annual leave and air passage are recognised when they accrue to the employees and an accrual is made for the estimated liability for annual leave and air passage as a result of services up to the reporting date. The accruals relating to annual leave and air passage is disclosed as a part of current liabilities.

**3 Summary of significant accounting polices (continued)**

**(u) Leases - the Branch as a lessee**

The Branch assesses whether a contract is or contains a lease, at the inception of the contract. The Branch recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Branch recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

**4 Significant accounting judgments and estimates**

In the process of applying the Branch's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The significant judgments and estimates are as follows:

**Economic useful lives of equipment and fixtures**

The Branch's equipment and fixtures are depreciated on a straight-line basis over their economic useful lives. The economic useful lives of equipment and fixtures are reviewed periodically by management. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Branch.

**Impairment losses on loans and advances**

The Branch reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the management makes judgments about the borrower's financial situation and the net realisable value of collaterals. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to expected loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios, etc.), concentration of risks and economic data (including levels of unemployment and the performance of different individual groups).

**Fair value of financial instruments**

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

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in the active market for similar instruments, quoted market prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data;

**4 Significant accounting judgments and estimates (continued)**

**Fair value of financial instruments (continued)**

- Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments that are valued based on quoted prices of similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

**Going concern**

The management of the Branch reviews the financial position of the Branch on a periodical basis and assesses the requirement of any additional funding to meet the working capital requirements and estimated funds required to meet the liabilities as and when they become due. In addition, the management of the Branch ensures that they provide adequate financial support to fund the requirements of the Branch to ensure the going concern status of the Branch.

**Contingencies**

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

**Taxation**

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

**Estimation uncertainty relating to the global health pandemic on COVID-19**

On 11 March 2020, the World Health Organization declared COVID-19 outbreak as a pandemic. Responding to the potentially serious threat that this pandemic has to public health, the Supreme Committee of the Sultanate of Oman has taken a series of measures to contain the outbreak, which included imposing multiple 'lock-downs' across the country from 22 March 2020.

COVID- 19 has interrupted the movement of people and goods throughout the world, as well as affecting the profitability and long-term viability of many entities. While many jurisdictions have experienced an improved economic outlook in 2021, many jurisdictions and industries are still being affected significantly by the effects of COVID-19. This includes supply chain disruptions, changes in demand for goods and services as well as the uncertainty of future government imposed restrictions on operations.

Management are currently monitoring the situation and its impact on the Branch's operation and its financial position and believes that, based on their assessment, the Branch has sufficient liquidity available to continue to meet is financial commitments for the foreseeable future when they become due.

**(Expressed in Omani Rial '000)**

## 5 Cash and balances with Central Bank of Oman

| | 2021 | 2020 |
|---|---|---|
| Cash | 184 | 168 |
| Balance with CBO | 1,994 | 1,214 |
| Cash and cash equivalents (Note 17) | 2,178 | 1,382 |
| Capital deposit with CBO | 500 | 500 |
| Oman net deposit with CBO | 25 | 25 |
| BDIS deposit with CBO | 5 | 5 |
| | 2,708 | 1,912 |

The capital deposit, Oman net deposit and BDIS deposit with CBO is a regulatory requirement and cannot be withdrawn without the approval of the CBO.

## 6 Due from affiliates and other banks

| **Due from affiliates:** | **2021** | **2020** |
|---|---|---|
| Due from affiliates | 22 | 49 |

| **Due from other banks:** | **2021** | **2020** |
|---|---|---|
| Placement with other banks | 3,000 | 11,500 |
| Loans to other banks | 24,697 | 12,513 |
| Demand balances from other banks | 1,340 | 194 |
| | 29,037 | 24,207 |
| Less: impairment allowance | (36) | (35) |
| | 29,001 | 24,172 |
| Total due from affiliates and other banks | 29,023 | 24,221 |

As at 31 December 2021, the Branch has placed RO 3 million with Bank Dhofar (2020: RO 5.75 million each with Bank Muscat and National Bank of Oman) with an interest rate of 1% per annum (2020: 0.80% per annum) maturing on 31 January 2022.

As at 31 December 2021, loan outstanding amounting to RO 16.99 million were due from Sohar International and RO 3.85 million each with Bank Muscat and Bank Dhofar (2020: Bank Muscat RO 12.51 million).

## 7 Loans and advances to customers

| | **2021** | **2020** |
|---|---|---|
| **Corporate loans** | | |
| Term loans | 13,756 | 13,994 |
| Overdrafts and buyers credit | 26,500 | 19,650 |
| **Personal loans** | | |
| Loans | 48 | 43 |
| **Gross loans and advances to customers** | 40,304 | 33,687 |
| Less: impairment allowance | (1,122) | (1,112) |
| **Net loans and advances to customers** | 39,182 | 32,575 |

(Expressed in Omani Rial '000)

## 7 Loans and advances to customers (net)

Classification between corporate and personal loans has been made according to CBO guidelines. As of the reporting date, cash collateral held by the Branch against loans and advances granted were RO 1.78 million (2020: RO 1.83 million).

| Stage-wise gross loans and ECL | 2021 | 2020 |
|---|---|---|
| Gross loans of stage 1 and 2 | 39,747 | 32,893 |
| Less: ECL in Stage 1 and 2 | (565) | (318) |
| | 39,182 | 32,575 |
| Gross loans of stage 3 | 557 | 794 |
| Less: ECL in Stage 3 | (557) | (794) |
| | - | - |
| Gross loans in Stage 1, 2 and 3 | 40,304 | 33,687 |
| Less: ECL is stage 1, 2 and 3 | (1,122) | (1,112) |
| | 39,182 | 32,575 |

| **Analysis of provision for ECL is set out below:** | 2021 | 2020 |
|---|---|---|
| ECL in stage 1 | 44 | 11 |
| ECL in stage 2 | 521 | 307 |
| ECL in stage 3 | 557 | 794 |
| **Total ECL for loans and advances** | 1,122 | 1,112 |

| The movement in the provision for ECL and reserved interest accounts is set out below: | 2021 | 2020 |
|---|---|---|
| Balance as at 1 January | 1,112 | 924 |
| Provision for the year | 10 | 188 |
| Balance at 31 December | 1,122 | 1,112 |

The required provision as per IFRS 9, based on the ECL model is RO 1.16 million as at 31 December 2021 (2020: RO 1.15 million).

**Provision for expected credit losses**

| 2021 | Stage 1 | Stage 2 | Stage 3 | Total ECL |
|---|---|---|---|---|
| Loan and advances | 44 | 521 | 557 | 1,122 |
| Non-fund based facilities (Note 15) | 6 | 2 | - | 8 |
| Due from other banks (Note 6) | 36 | - | - | 36 |
| Total provision for expected credit losses | 86 | 523 | 557 | 1,166 |

**(Expressed in Omani Rial '000)**

## 7 Loans and advances to customers (net)

**Provision for expected credit losses**

| **2020** | **Stage 1** | **Stage 2** | **Stage 3** | **Total ECL** |
|---|---|---|---|---|
| Loan and advances | 11 | 307 | 794 | 1,112 |
| Non-fund based facilities (Note 15) | - | 4 | - | 4 |
| Due from other banks (Note 6) | 35 | - | - | 35 |
| Total provision for expected credit losses | 46 | 311 | 794 | 1,151 |

| **Net ECL movement during the year** | **2019** | **Movement** | **2020** | **Movement** | **2021** |
|---|---|---|---|---|---|
| Loan and advances | 924 | 188 | 1,112 | 10 | 1,122 |
| Non-fund based facilities (Note 15) | 11 | (7) | 4 | 4 | 8 |
| Due from other banks (Note 6) | 31 | 4 | 35 | 1 | 36 |
| Other assets (Note 10) | 5 | (5) | - | - | - |
| Total provision for expected credit losses | 971 | 180 | 1,151 | 15 | 1,166 |

| **ECL charged to profit or loss account during the year** | **2021** | **2020** |
|---|---|---|
| Opening balance | 1,151 | 971 |
| Additional provision during the year | 252 | 180 |
| Recovery during the year | (44) | - |
| | 1,359 | 1,151 |
| Written-off during the year | (193) | - |
| Closing balance | 1,166 | 1,151 |
| Net ECL charged during the year | 208 | 180 |

During the year, the Branch recovered RO 44K from stage 3 (2020: RO Nil) and written-off RO 193K from stage 3 accounts and transferred to Advances under collection account (AUCA) (2020: RO Nil).

At the reporting date, 5 customers (2021 - 5 customers) account for 68.86% (2020 - 49.52%) of the gross loans and advances.

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity.

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Branch's performance to developments affecting a particular industry or geographic location. The Branch's concentration of credit risk information is set out in Note 22 (b), (c) and (d).

In accordance with CBO circular BM 977, the Branch continued to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of its loan and advances to customers portfolio in accordance with the CBO norms, including those on restructuring of loan accounts for regulatory reporting purposes.

(Expressed in Omani Rial '000)

**7 Loans and advances to customers (net) (continued)**

**Comparison of provision held based on IFRS 9 and required based on the CBO norms for the year 2021:**

Disclosure requirements containing the risk classification – wise gross and net amount outstanding, provision required based on CBO norms, allowance made based on IFRS 9, interest recognised based on IFRS 9 and reserve interest required based on CBO are given below based on CBO circular BM 1149 as on 31 December 2021 and 2020.

| Asset Classification as per CBO Norms | Asset Classification as per IFRS 9 | Gross Amount | Provision required as per CBO Norms | Provision held as per IFRS 9 | Difference between CBO provision required and provision held | Net Amount as per CBO norms* | Net Amount as per IFRS 9 | Interest recognised in P&L as per IFRS 9 in the quarter | Reserve interest as per CBO norms for the quarter |
|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) = (4)-(5) | (7)=(3)-(4)-(10) | (8) = (3)-(5) | (9) | (10) |
| Standard | Stage 1 | 23,182 | 233 | 22 | 211 | 22,949 | 23,160 | - | - |
| | Stage 2 | 11,626 | 115 | 205 | (90) | 11,511 | 11,421 | - | - |
| | Stage 3 | - | - | - | - | - | - | - | - |
| Subtotal | | **34,808** | **348** | **227** | **121** | **34,460** | **34,581** | **-** | **-** |
| | | | | | | | | | |
| Special Mention | Stage 1 | 1,451 | 7 | 21 | (14) | 1,444 | 1,430 | - | - |
| | Stage 2 | 3,487 | 24 | 317 | (293) | 3,463 | 3,170 | - | - |
| | Stage 3 | - | - | - | - | - | - | - | - |
| Subtotal | | **4,938** | **31** | **338** | **(307)** | **4,907** | **4,600** | **-** | **-** |
| | | | | | | | | | |
| Substandard | Stage 1 | - | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - | - |
| | Stage 3 | - | - | - | - | - | - | - | - |
| Subtotal | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | | | | | | | | |
| Doubtful | Stage 1 | - | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - | - |
| | Stage 3 | - | - | - | - | - | - | - | - |
| Subtotal | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | | | | | | | | |
| Loss | Stage 1 | - | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - | - |
| | Stage 3 | 557 | 557 | 557 | - | - | - | - | - |
| Subtotal | | **557** | **557** | **557** | **-** | **-** | **-** | **-** | **-** |
| | | | | | | | | | |
| Other items not covered under CBO | Stage 1 | 30,227 | 123 | 43 | 80 | 30,104 | 30,184 | - | - |
| | Stage 2 | 411 | - | 1 | (1) | 411 | 410 | - | - |
| | Stage 3 | - | - | - | - | - | - | - | - |
| Subtotal | | **30,638** | **123** | **44** | **79** | **30,515** | **30,594** | **-** | **-** |
| | | | | | | | | | |
| **Total** | **Stage 1** | **54,860** | **363** | **86** | **277** | **54,497** | **54,774** | **-** | **-** |
| | **Stage 2** | **15,524** | **139** | **523** | **(384)** | **15,385** | **15,001** | **-** | **-** |
| | **Stage 3** | **557** | **557** | **557** | **-** | **-** | **-** | **-** | **-** |
| | **Total** | **70,941** | **1,059** | **1,166** | **(107)** | **69,882** | **69,775** | **-** | **-** |

The gross amount includes the un-utilised fund based and non-fund based facilities.

(Expressed in Omani Rial '000)

## 7 Loans and advances to customers (net)

**Comparison of provision held based on IFRS 9 and required based on the CBO norms for the year 2020:**

| Asset Classification as per CBO Norms | Asset Classification as per IFRS 9 | Gross Amount | Provision required as per CBO Norms | Provision held as per IFRS 9 | Difference between CBO provision required and provision held | Net Amount as per CBO norms* | Net Amount as per IFRS 9 | Interest recognised in P&L as per IFRS 9 in the quarter | Reserve interest as per CBO norms for the quarter |
|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) = (4)-(5) | (7)=(3)-(4)-(10) | (8) = (3)-(5) | (9) | (10) |
| Standard | Stage 1 | 15,003 | 150 | 11 | 139 | 14,853 | 14,992 | - | - |
| | Stage 2 | 14,809 | 144 | 61 | 83 | 14,665 | 14,748 | - | - |
| | Stage 3 | - | - | - | - | - | - | - | - |
| Subtotal | | **29,812** | **294** | **72** | **222** | **29,518** | **29,740** | **-** | **-** |
| | | | | | | | | | |
| Special Mention | Stage 1 | - | - | - | - | - | - | - | - |
| | Stage 2 | 3,081 | 16 | 246 | (230) | 3,065 | 2,835 | - | - |
| | Stage 3 | - | - | - | - | - | - | - | - |
| Subtotal | | **3,081** | **16** | **246** | **(230)** | **3,065** | **2,835** | **-** | **-** |
| | | | | | | | | | |
| Substandard | Stage 1 | - | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - | - |
| | Stage 3 | - | - | | - | - | - | - | - |
| Subtotal | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | | | | | | | | |
| Doubtful | Stage 1 | - | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - | - |
| | Stage 3 | - | - | - | - | - | - | - | - |
| Subtotal | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | | | | | | | | |
| Loss | Stage 1 | - | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - | - |
| | Stage 3 | 794 | 794 | 794 | - | - | - | - | - |
| Subtotal | | **794** | **794** | **794** | **-** | **-** | **-** | **-** | **-** |
| | | | | | | | | | |
| Other items not covered under CBO | Stage 1 | 25,946 | - | 35 | (35) | 25,946 | 25,911 | - | - |
| | Stage 2 | 1,495 | - | 4 | (4) | 1,495 | 1,491 | - | - |
| | Stage 3 | - | - | - | - | - | - | - | - |
| Subtotal | | **27,441** | **-** | **39** | **(39)** | **27,441** | **27,402** | **-** | **-** |
| | | | | | | | | | |
| **Total** | **Stage 1** | **40,949** | **150** | **46** | **104** | **40,799** | **40,903** | **-** | **-** |
| | **Stage 2** | **19,385** | **160** | **311** | **(151)** | **19,225** | **19,074** | **-** | **-** |
| | **Stage 3** | **794** | **794** | **794** | **-** | **-** | **-** | **-** | **-** |
| | **Total** | **61,128** | **1,104** | **1,151** | **(47)** | **60,024** | **59,977** | **-** | **-** |

**(Expressed in Omani Rial '000)**

## 7 Loans and advances to customers (net) (continued)

The analysis of changes in the gross carrying amount and corresponding ECL allowance on loans, advances and financing is as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| As at 1 January 2021 | 15,003 | 17,890 | 794 | 33,687 |
| New assets originated or purchased | 19,029 | 441 | - | 19,470 |
| Assets derecognised or repaid | (12,509) | (107) | (237) | (12,853) |
| Transfers between stages | 3,110 | (3,110) | - | - |
| As at 31 December 2021 | 24,633 | 15,114 | 557 | 40,304 |
| ECL allowance as at 1 January 2021 | 11 | 307 | 794 | 1,112 |
| Expected credit losses recognised | 2 | 248 | - | 250 |
| Recoveries against expected credit losses | (2) | (1) | (44) | (47) |
| Written-off during the year | - | - | (193) | (193) |
| Transfers between stages | 33 | (33) | - | - |
| As at 31 December 2021 | 44 | 521 | 557 | 1,122 |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| As at 1 January 2020 | 13,816 | 3,544 | 810 | 18,170 |
| New assets originated or purchased | 16,214 | - | - | 16,214 |
| Assets De-recognised or repaid | - | (681) | (16) | (697) |
| Transfers between stages | (15,027) | 15,027 | - | - |
| As at 31 December 2020 | 15,003 | 17,890 | 794 | 33,687 |
| ECL allowance as at 1 January 2020 | 254 | 67 | 603 | 924 |
| Expected credit losses recognised | - | - | 207 | 207 |
| Release/recoveries against expected credit losses | - | - | (16) | (16) |
| Transfers between stages | (243) | 240 | - | (3) |
| As at 31 December 2020 | 11 | 307 | 794 | 1,112 |

In accordance with CBO circular BM 1149, the mandatory regulatory impairment reserve is created when the provisions and reserve interest required based on the CBO norms exceed the impairment allowance required based on IFRS. The impairment reserve is a yearly appropriation from the net profit after tax. The regulatory impairment reserve will not be available for payment of dividend or for inclusion in regulatory capital. Any subsequent utilisation of the impairment reserve would require prior approval of the CBO. The CBO has suspended the two track approach on provisions up to 2022 and hence, impairment as per IFRS is considered.

Additional disclosures on Non-performing loans (NPL) coverage as per CBO circular BM 1149 is given below:

| | As per CBO | As per IFRS 9 | Difference |
|---|---|---|---|
| Provisions as at December 2021 | 1,059 | 1,166 | 107 |
| Provisions as at December 2020 | 1,104 | 1,151 | 47 |
| Gross NPL ratio (percentage) - 2021 | 1.38% | 1.38% | - |
| Gross NPL ratio (percentage) - 2020 | 2.36% | 2.36% | - |
| Net NPL ratio (percentage) - 2021 | -% | -% | - |
| Net NPL ratio (percentage) - 2020 | -% | -% | - |

Interest is not reserved by the Branch against loans and advances which are impaired.

There are no restructured accounts in the loan portfolio of the Branch.

**(Expressed in Omani Rial '000)**

## 8 Investments at fair value through other comprehensive income

| **Government Development Bonds** | **Fair value as at 31 December 2021** | **Amortised Cost 31 December 2021** | **Fair value as at 31 December 2020** | **Amortised Cost 31 December 2020** |
|---|---|---|---|---|
| Issue no.40 maturing on 19 June 2022 | 1,000 | 1,004 | 1,000 | 1,006 |
| | 1,000 | 1,004 | 1,000 | 1,006 |

| | **2021** | **2020** |
|---|---|---|
| As at 1 January | (6) | 120 |
| Change in fair value | 2 | (126) |
| As at 31 December | (4) | (6) |

The face value of the Government Development Bonds held by the Branch is RO 1 million (2020: RO 1 million). The maximum exposure to credit risk at the reporting date is the fair value of the investment.

## 9 Equipment

| **Cost** | **Motor vehicles** | **Furniture and fixtures** | **Office equipment** | **Total** |
|---|---|---|---|---|
| Balance at 1 January 2021 | 18 | 96 | 125 | 239 |
| Additions during the year | - | 1 | 13 | 14 |
| Written-off during the year | - | (4) | (8) | (12) |
| Balance at 31 December 2021 | 18 | 93 | 130 | 241 |
| **Accumulated depreciation** | | | | |
| Balance at 1 January 2021 | 18 | 88 | 105 | 211 |
| Charge for the year | - | 2 | 9 | 11 |
| Written-off during the year | - | (4) | (8) | (12) |
| Balance at 31 December 2021 | 18 | 86 | 106 | 210 |
| **Net book amount** | | | | |
| At 31 December 2021 | - | 7 | 24 | 31 |

| **Cost** | **Motor vehicles** | **Furniture and fixtures** | **Office equipment** | **Total** |
|---|---|---|---|---|
| Balance at 1 January 2020 | 18 | 93 | 118 | 229 |
| Additions during the year | - | 3 | 7 | 10 |
| Balance at 31 December 2020 | 18 | 96 | 125 | 239 |
| **Accumulated depreciation** | | | | |
| Balance at 1 January 2020 | 18 | 86 | 95 | 199 |
| Charge for the year | - | 2 | 10 | 12 |
| Balance at 31 December 2020 | 18 | 88 | 105 | 211 |
| **Net book amount** | | | | |
| At 31 December 2020 | - | 8 | 20 | 28 |

**(Expressed in Omani Rial '000)**

| **10 Other assets** | **2021** | **2020** |
|---|---|---|
| Acceptances (Note 13) | - | 439 |
| | - | 439 |
| Interest receivable | 78 | 40 |
| Prepaid and other expenses | 23 | 37 |
| | 101 | 516 |

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

| **11 Customers' deposits** | **2021** | **2020** |
|---|---|---|
| Time deposits | 2,948 | 3,534 |
| Current accounts | 2,627 | 2,638 |
| Savings account | 859 | 1,354 |
| | 6,434 | 7,526 |

The maturity profile of customers' deposits based upon the period remaining to maturity as of the reporting date is set out in Note 24 under liquidity risk.

(Expressed in Omani Rial '000)

## 12 Due to affiliates

| | 2021 | 2020 |
|---|---|---|
| Short-term borrowings | 36,265 | 23,485 |
| Demand balances | 133 | 43 |
| | 36,398 | 23,528 |

## 13 Other liabilities

| | 2021 | 2020 |
|---|---|---|
| Liabilities against acceptances (Note 11) | - | 439 |
| Interest payable and others | 186 | 175 |
| Net ECL provided as per IFRS 9 (non-fund based - Note 15) | 8 | 4 |
| | 194 | 618 |

## 14 Assigned capital and reserve deposit

The assigned capital of RO 20.05 million (2020: RO 20.05 million) and reserve deposit of RO 500,000 (2020: RO 500,000) meet the minimum requirements of the CBO for branches of foreign banks operating in the Sultanate of Oman and, are, therefore not distributable to the Head Office.

## 15 Commitments and contingent liabilities

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

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

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

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

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

| | 2021 | 2020 |
|---|---|---|
| Guarantees issued | 1,260 | 1,588 |
| Letters of credit | 680 | 840 |
| | 1,940 | 2,428 |
| Less: impairment losses (Note 13) | (8) | (4) |
| Net commitments and contingent liabilities | 1,932 | 2,424 |

*ECL for NFB is RO 4K as against RO 11K during the pervious year.

The Branch's concentration of the contingent liabilities as of the reporting date is set out in Note 22 (d).

**(Expressed in Omani Rial '000)**

## 16 Related party transactions

In the ordinary course of business, the Branch conducts transactions with other State Bank of India branches and companies over which State Bank of India is able to exert significant influence. Such transactions are to be on mutually agreed terms and conditions. Transactions with related parties during the year are as follows:

| | 2021 | 2020 |
|---|---|---|
| Interest paid to other branches | 72 | 44 |
| Commission on guarantees and investments issued on behalf of other branches | 11 | 12 |
| Key management remuneration | 14 | 13 |
| Management expenses | 27 | 12 |

The statement of financial position includes the following amounts in relation to balances with related parties:

| | 2021 | 2020 |
|---|---|---|
| Due to affiliates (Note 12) | 34,398 | 23,528 |
| Due from affiliates (Note 6) | 22 | 49 |
| **Contingent liabilities and commitments** | | |
| Guarantees issued on behalf of other branches | 764 | 879 |

## 17 Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

| | 2021 | 2020 |
|---|---|---|
| Cash and balances with CBO (Note 5) | 2,178 | 1,382 |
| | 2,178 | 1,382 |

## 18 Other operating income

| | 2021 | 2020 |
|---|---|---|
| Commission and other income | 240 | 245 |

## 19 Income from investments and placements

| | 2021 | 2020 |
|---|---|---|
| Interest on placements with other Banks | 64 | 215 |
| Interest on investments at fair value through other comprehensive income | 51 | 75 |
| Interest on capital deposit with CBO | 8 | 8 |
| | 123 | 298 |

**(Expressed in Omani Rial '000)**

## 20 Staff and administration costs

| | 2021 | 2020 |
|---|---|---|
| **Staff costs** | | |
| Salaries and allowances | 299 | 300 |
| Other personnel costs | 53 | 56 |
| | 352 | 356 |

| | 2021 | 2020 |
|---|---|---|
| **Administration costs** | | |
| Fees subscription and communication expenses | 141 | 123 |
| Occupancy costs | 45 | 46 |
| Management expenses | 27 | 12 |
| Repair and maintenance expenses | 24 | 23 |
| Legal and professional fees | 20 | 22 |
| Others | 230 | 180 |
| | 487 | 406 |
| **Total staff and administration costs** | 839 | 762 |

## 21 Income tax

(a) Components of income tax expense

| | 2021 | 2020 |
|---|---|---|
| **Current tax** | | |
| Current year | 81 | 79 |
| Prior year | 8 | 15 |
| | 89 | 94 |

The Branch is liable to income tax in accordance with the Income Tax Laws of the Sultanate of Oman at the rate of 15% on taxable profits. The following is reconciliation between income tax calculated on accounting profits at the applicable tax rate with the income tax expense for the year.

(b) Reconciliation of income tax expense

| | 2021 | 2020 |
|---|---|---|
| Accounting profit for the year | 524 | 562 |
| Tax liability at the rates mentioned above | 79 | 84 |
| Un-recognised deferred tax liability/(asset) | 2 | (5) |
| Prior year tax | 8 | 15 |
| | 89 | 94 |

(c) Status of the tax assessments

Provision for income tax has been made after giving due consideration to adjustments for potential allowances and disallowances. Income tax has been agreed with the Oman Tax Authorities up to tax year 2020. The management considers that the amount of additional taxes, if any, that may become payable in relation to the tax years for which assessments are pending would not be material to the Branch’s financial position as at 31 December 2021.

(d) Deferred tax

Deferred tax asset amounting to RO 2K (2020: RO 2K) has not been recognised as the net effect of temporary differences as at 31 December 2021 is not considered by the management to be significant.

**(Expressed in Omani Rial '000)**

## 22 Analysis of assets and liabilities

### (a) Interest rate gap analysis

The interest rate gap analysis as at 31 December 2021 was as follows:

| | *Effective average Interest rate* | *Less than 6 months* | *7 months to 12 months* | *Over 12 months* | *Non-interest bearing* | ***Total*** |
|---|---|---|---|---|---|---|
| **As at 31 December 2021** | *%* | | | | | |
| Cash and balances with the CBO | - | - | - | - | 2,178 | 2,178 |
| Capital deposit with the CBO | 1.5 | - | - | 500 | 30 | 530 |
| Due from affiliates and other banks | 1.91 | 27,661 | - | - | 1,362 | 29,023 |
| Investments at fair value through other comprehensive income | 5.1 | 1,000 | - | - | - | 1,000 |
| Loans and advances | 4.01 | 30,169 | 6,949 | 2,064 | - | 39,182 |
| Equipment | - | - | - | - | 31 | 31 |
| Other assets | - | - | - | - | 101 | 101 |
| **Total assets** | | 58,830 | 6,949 | 2,564 | 3,702 | 72,045 |
| Deposits from customers | 0.98 | 732 | 185 | 2,891 | 2,626 | 6,434 |
| Due to affiliates | 0.27 | 36,265 | - | - | 133 | 36,398 |
| Other liabilities (including income tax payable) | | - | - | - | 275 | 275 |
| Equity | | - | - | - | 28,938 | 28,938 |
| **Total liabilities and equity** | | 36,997 | 185 | 2,891 | 31,972 | 72,045 |
| Total interest rate sensitivity gap | | 21,833 | 6,764 | (327) | (28,270) | |
| **Cumulative interest rate sensitivity gap** | | 21,833 | 28,597 | 28,270 | | |

(Expressed in Omani Rial '000)

## 22 Analysis of assets and liabilities (continued)

### (a) Interest rate gap analysis (continued)

| As at 31 December 2020 | *Effective average Interest rate* % | *Less than 6 months* | *7 months to 12 months* | *Over 12 months* | *Non interest bearing* | *Total* |
|---|---|---|---|---|---|---|
| Cash and balance with the CBO | - | - | - | - | 1,382 | 1,382 |
| Capital deposit with the CBO | 1.5 | - | - | 500 | 30 | 530 |
| Due from affiliates and other banks | 1.4 | 12,478 | - | - | 243 | 12,721 |
| Investments at fair value through other comprehensive income | 3.57 | - | - | 1,000 | - | 1,000 |
| Loans and advances | 3.22 | 29,832 | 1,880 | 863 | - | 32,575 |
| Equipment and fixtures | - | - | - | - | 28 | 28 |
| Other assets | - | - | - | - | 516 | 516 |
| **Total assets** | | 42,310 | 1,880 | 2,363 | 2,199 | 48,752 |
| Deposits from customers | 0.85 | 2,471 | 2,068 | 2,987 | - | 7,526 |
| Due to affiliates | 0.40 | 23,485 | - | - | 43 | 23,528 |
| Other liabilities (including income tax payable) | - | - | - | - | 697 | 697 |
| Equity | - | - | - | - | 28,501 | 28,501 |
| **Total liabilities and equity account** | | 25,956 | 2,068 | 2,987 | 29,241 | 60,252 |
| Total interest rate sensitivity gap | | 16,354 | (188) | (624) | (27,042) | |
| **Cumulative interest rate sensitivity gap** | | 16,354 | 16,166 | 15,542 | | |

### (b) Geographical concentrations

| | *Assets* | | *Liabilities* | |
|---|---|---|---|---|
| | *Gross loans and advances* | *Investments* | *Deposits from customers* | *Contingent liabilities* |
| **31 December 2021** | | | | |
| Sultanate of Oman | 21,297 | 1,000 | 6,434 | 1,177 |
| India | 19,007 | - | - | 763 |
| | 40,304 | 1,000 | 6,434 | 1,940 |

(Expressed in Omani Rial '000)

**22 Analysis of assets and liabilities (continued)**

**(b) Geographical concentrations (continued)**

| | *Assets* | | *Liabilities* | |
|---|---|---|---|---|
| | *Gross loans and advances* | *Investments* | *Deposits from customers* | *Contingent liabilities* |
| 31 December 2020 | | | | |
| Sultanate of Oman | 21,763 | 1,000 | 7,526 | 1,549 |
| India | 11,924 | - | - | 879 |
| | 33,687 | 1,000 | 7,526 | 2,428 |

**(c) Customer concentrations**

| | *Assets* | | | *Liabilities* | |
|---|---|---|---|---|---|
| | *Gross loans and advances* | *Capital deposit and other deposits with the CBO* | *Investments* | *Customer deposits* | *Contingent liabilities* |
| **31 December 2021** | | | | | |
| Corporate | 40,256 | - | - | 5,327 | 1,940 |
| Personal | 48 | - | - | 1,107 | - |
| Government | - | *530* | 1,000 | - | - |
| | 40,304 | 530 | 1,000 | 6,434 | 1,940 |

| | *Assets* | | | *Liabilities* | |
|---|---|---|---|---|---|
| | *Gross loans and advances* | *Capital deposit and other deposits with the CBO* | *Investments* | *Customer deposits* | *Contingent liabilities* |
| 31 December 2020 | | | | | |
| Corporate | 33,644 | - | - | 2,824 | 2,428 |
| Personal | 43 | - | - | 4,702 | - |
| Government | - | 530 | 1,000 | - | - |
| | 33,687 | 530 | 1,000 | 7,526 | 2,428 |

(Expressed in Omani Rial '000)

## 22 Analysis of assets and liabilities (continued)

### (d) Economic sector concentrations

| | *Assets* | *Liabilities* | |
|---|---|---|---|
| | *Gross loans and advances* | *Deposits with customers* | *Contingent liabilities* |
| **31 December 2021** | | | |
| Personal | 48 | 1,107 | - |
| International trade | 20,316 | - | - |
| Construction | 10,579 | - | 40 |
| Manufacturing | 2,349 | - | 101 |
| Wholesale and retail trade | 2,566 | - | 1,069 |
| Financial services | 587 | - | - |
| Other services | 3,859 | 5,327 | 730 |
| | 40,304 | 6,434 | 1,940 |

| | *Assets* | *Liabilities* | |
|---|---|---|---|
| | *Gross loans and advances* | *Deposits with customers* | *Contingent liabilities* |
| 31 December 2020 | | | |
| Personal | 43 | 4,702 | - |
| International trade | 13,168 | - | - |
| Construction | 10,814 | 670 | 18 |
| Manufacturing | 2,616 | 16 | 54 |
| Wholesale and retail trade | 2,473 | 10 | 118 |
| Financial services | 702 | 52 | - |
| Other services | 3,871 | 2,076 | 2,238 |
| | 33,687 | 7,526 | 2,428 |

## 23 Fair value information

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

**Loans and advances**

The Branch has given its loans and advances at market rates of interest and, accordingly, management considers that the fair value of the loans and advances given by the Branch are not materially different from the carrying amount. These are stated net of provision for ECL based on the CBO guidelines.

**Customer deposits**

For demand deposits and deposits with no defined maturities, fair value taken is the amount payable on demand including accrued interest at the reporting date.

(Expressed in Omani Rial '000)

## 23 Fair value information (continued)

**Other financial instruments**

The fair values of all other financial instruments are considered to approximate their book values.

**Off-balance sheet financial instruments**

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

**Fair value of financial instruments**

The Branch uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

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

| | *Level 1* | *Level 2* | *Level 3* | *Total* |
|---|---|---|---|---|
| **31 December 2021** | | | | |
| Financial assets | | | | |
| Investment at fair value through other comprehensive income | | | | |
| Government Development Bonds | 1,000 | - | - | 1,000 |
| **Total** | 1,000 | - | - | 1,000 |

| | *Level 1* | *Level 2* | *Level 3* | *Total* |
|---|---|---|---|---|
| 31 December 2020 | | | | |
| Financial assets | | | | |
| Investment at fair value through other comprehensive income | | | | |
| Government Development Bonds | 1,000 | - | - | 1,000 |
| Total | 1,000 | - | - | 1,000 |

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

(Expressed in Omani Rial '000)

## 23 Fair value information (continued)

### Fair value of financial instruments (continued)

The Branch considers that the fair value of financial instruments was not significantly different to their carrying value (including accrued interest) at each of those dates. The table below sets out the classification and fair value of each class of financial assets and liabilities including accrued interest.

| **At 31 December 2021** | **Amortised cost** | **FVOCI** | **FVTPL** | **Total carrying amount/ fair value** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with Central Bank of Oman | 2,708 | - | - | 2,708 |
| Due from affiliates and other banks | 29,023 | - | - | 29,023 |
| Loans and advances to customers | 39,182 | - | - | 39,182 |
| Investments at fair value through other comprehensive income | - | 1,000 | - | 1,000 |
| Other assets | 101 | - | - | 101 |
| **Total** | 71,014 | 1,000 | - | 72,014 |
| **Financial liabilities** | | | | |
| Customer deposits | 6,434 | - | - | 6,434 |
| Due to affiliates | 36,398 | - | - | 36,398 |
| Other liabilities | 194 | - | - | 194 |
| | 43,026 | - | - | 43,026 |

| At 31 December 2020 | **Amortised cost** | **FVOCI** | **FVTPL** | **Total carrying amount/ fair value** |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and balances with Central Bank of Oman | 1,912 | - | - | 1,912 |
| Due from affiliates and other banks | 24,221 | - | - | 24,221 |
| Loans and advances to customers | 32,575 | - | - | 32,575 |
| Investments at fair value through other comprehensive income | - | 1,000 | - | 1,000 |
| Other assets | 516 | - | - | 516 |
| **Total** | 59,224 | 1,000 | - | 60,224 |
| Financial liabilities | | | | |
| Customer deposits | 7,526 | - | - | 7,526 |
| Due to affiliates | 23,528 | - | - | 23,528 |
| Other liabilities | 618 | - | - | 618 |
| | 31,672 | - | - | 31,672 |

## 24 Risk management

Risk is inherent in the Branch's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Branch's continuing profitability and each individual within the Branch is accountable for the risk exposures relating to his or her responsibilities. The Branch is exposed to credit risk, liquidity risk, market risk and operational risks.

The Branch is managed as a foreign office of State Bank of India and any material decision is approved by Corporate Centre (CC) in India. The risk appetite of the Branch is monitored by the CC and strategy is determined in India. Policies and procedures are also in place to which the Branch must adhere at all times.

### Risk management systems

A Risk Committee (RCOM) is in place at the Branch. The RCOM has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits at the Branch. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. It is responsible for formulating local level policies based on local regulatory provisions. The risk management systems in the Branch are reviewed in detail by the RCOM while assessing the adequacy of the same to control the material risks. The appropriate mitigation measures are in place to address the same.

RCOM consists of the Chief Executive Officer, Dy. Manager (Risk), Dy. Manager (Finance), Chief Manager (Credit), Chief Manager (Client Services). RCOM is primarily involved in:

(i) developing mechanisms to ensure that the Branch acts in accordance with the asset/liability management policies and the policies laid down by its Head Office and local regulatory authorities;
(ii) evolving appropriate systems and procedures for ongoing identification and analysis of financial risks and laying down parameters for efficient management of those risks;
(iii) ensuring implementation of systems and procedures as laid down in the polices framed for credit, market and operational risks management; and
(iv) monitoring compliance of the policies laid down by the Head Office and the CBO.

Subject to the guidelines set by the RCOM, day-to-day management of the various risks is carried out by the officials designated for the respective tasks.

The guidelines / instructions relating to management of market, credit, liquidity and operational risks are conveyed by the International Banking Group (IBG), CC India from time to time through policy guidelines / circulars/ instructions. The Branch has comprehensive policies on asset liability management, market risk management, credit risk management and operational risk management, which articulate policy guidelines, procedures, review mechanisms, reporting structures, etc. to conform to guidelines laid down by the CBO and the CC in India.

These documents set out the policies and procedures to be followed for prudently managing and controlling these risks and to ensure compliance with the regulatory requirements. These contain detailed guidelines and procedures for identification, assessment, measurement, monitoring and control of various risks, which are reviewed by the RCOM. The risk management functions at the Branch are being conducted based on these policy guidelines / instructions.

### Risk controlling

Monitoring and controlling risks is primarily performed based on limits established by the Branch. These limits reflect the business strategy and market environment of the Branch as well as the level of risk that the Branch is willing to accept, with additional emphasis on selected industries. In addition, the Branch monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

**24 Risk management (continued)**

**Risk controlling (continued)**

Risk management processes of the Branch are reviewed throughout the year by the internal audit function at quarterly intervals, which examines both the adequacy of the procedures and the Branch's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the management.

The Branch's risk management policies are established to identify and analyse the risks faced by the Branch, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Branch, through its training and management procedures, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

**Credit risk**

Credit risk is the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a Branch's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions. Alternatively, losses result from reduction in portfolio value arising from actual or perceived deterioration in credit quality. Credit risk emanates from a Branch's dealings with an individual, corporate, bank, financial institution or a sovereign. The lending activities carried out by a Branch are the most important source of credit risk.

The Branch primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amount of the assets on the statement of financial position. The Branch guarantees the performance of customers by issuing bank guarantees and letters of credit to third parties. The risk involved is essentially the same as credit risk involved in extending loan facilities to customers, therefore these transactions are subjected to same credit organisation, portfolio maintenance and collateral requirements for customers applying for loans. While there is some credit risk associated with the remainder of funded and non-funded commitments, the risk is viewed as modest, since it results from the possibility of unused portions of the facilities being drawn by the customers. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. The credit risk of these facilities may be less than the notional amounts, but as it cannot be accurately determined, the credit risk has been taken to be the contract or notional amounts.

Concentrations of credit risk that arise from financial instruments exist for groups of counterparties when they have similar economic characteristic that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

**Credit quality analysis**

All loans and advances of the Branch are regularly monitored to ensure compliance with stipulated repayment terms. These loans and advances are classified into one of the five risk classification categories: Standard, Special Mention, Substandard, Doubtful and Loss, as stipulated by the CBO regulations and guidelines.

The Branch's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Branch since the prior year.

As required under IFRS 9, the Branch classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

## 24 Risk management (continued)

### Credit quality analysis (continued)

Stage 1 - Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months ECL is recorded. The ECL is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 - When a financial instrument experiences a SICR subsequent to origination but is not considered being in default, it is included in Stage 2. This requires the computation of ECL based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 - Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowances for credit losses captured the lifetime ECL.

The key inputs into the measurement of ECL are the term structure of the following variables:
Probability of Default (PD)
Loss given Default (LGD)
Exposure at Default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information. Details of these statistical parameters and inputs are as follows:

1. PD - The probability of default is an estimate of the likelihood of default over a given time horizon.
PD is considered on the basis of (i) Staging rate, (ii) Sector growth, (iii) Relationship Period and (iv) Country rating.

PD weights are distributed based on past default rate, GDP growth, relationship period and Country Rating.

The country's rating by Moody has been the benchmark, since Moody evaluates the country rating based on inflation, budget deficit, Consumer Price Index, capital formation and several other parameters.

Several other economic indices have been considered such as GDP trends at current market prices for various sectors like construction, services, hospitality, manufacturing, wholesale/ retail trading, financial institutions etc.

Further, to make the ECL more forward looking, the historic TTC PDs was converted into forward-looking PiT PDs by applying the Basel recommended Vasicek formal with the movement in the Oman GDP as the macro-economic factor.

2. EAD - The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

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

### Significant increase in credit risk

The Branch continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Branch assesses whether there has been a significant increase in credit risk since initial recognition.

**24 Risk management (continued)**

**Significant increase in credit risk (SICR) (continued)**

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

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements and non-cooperation by borrower in matters pertaining to documentation.

b. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.

c. Frequent changes in key senior management personnel without acceptable successors or professional management.

d. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.

e. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.

f. 4 notch downgrade in Master Rating Scale (MRS) of the Branch along with associated downgrade in PD except for accounts rated as 1 at origination for which a 3 notch downgrade in sub. investment grades.
g. Erosion in net worth by more than 20% compared to previous year.

**Outbreak of Coronavirus (COVID-19)**

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

**Government measures**

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the CBO, also instituted a host of measures to protect the stability of Country’s economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratios (vide CBO circular Number: BSD/CB/2020/001). The scheme of deferment of instalments in form of interest and principal was later extended up to March 2021 which was further extended to September 2021 and lastly up to December 2021. CBO has also come up with a scheme of restructuring and rescheduling of loans for the affected customers. The last date for approving such proposals is 31 March 2022.

**Impact of COVID-19 on the Bank**

The assessment of SICR and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, will not automatically lead to loans being measured on the basis of lifetime losses and considerable judgment will be needed to measure ECLs at this time.

**24 Risk management (continued)**

**Impact of COVID-19 on the Bank (continued)**

When it is not possible to reflect such information in the models, post-model overlays or adjustments should be considered. This is also broadly consistent with guidelines issued by other regulators including those issued by the CBO.

**Additional IFRS 9 guidelines issued by the CBO:**

• Deferment of loan repayment by a borrower may not on its own trigger the counting of 30 DPD or more backstop used to determine SICR or the 90 days past due backstop used to determine default. However, the Branch has continued to assess the obligor's likelihood of payment of amount due after the deferment period, and in case of SICR or credit impairment and if the same is not of a temporary nature, accordingly fairly recognised such risk.

• The deferment of repayment by borrowers may indicate short term liquidity or cash flow problems and hence the deferment of loan repayment may not be a sole deciding factor for SICR or impairment until and unless the Branch might have experienced other supportable evidence on having deterioration in the credit quality of the obligor.

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

• Branch develops estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions consideration should be given both to the effects of Covid-19 coupled with oil prices and significant CBO policy measures being undertaken.

• Nevertheless, any changes made to ECL estimate the impact of Covid-19 distress will be subject to very high levels of uncertainty as reasonable and supportable forward-looking information may not be currently available to substantiate those changes. As such, the macro-economic forecasts applied by the Branch in their IFRS 9/ECL models couldn't be recalibrated upfront with pre-mature effects of Covid-19 and CBO support measures, besides the individual and collective LGD's may get impacted due to Covid-19 effect on market prices of collateral and guarantees. However, the Branch has used post model adjustments and management overlays by applying multiple macroeconomic scenarios with careful application of probability weights to each of such scenarios while computing ECL on portfolio basis as prudence.

The Risk Committee of the Branch is primarily responsible for overseeing the Branch's adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors. Small and medium size enterprise (SME) customers are evaluated based on the stability of the business owner and business and any short term cash flow mismatches are supported by the Branch.

Branch's retail portfolio which is amounting to RO 48K approximately, predominantly comprises of staff loans which were insulated from job cuts and salary reductions. Since, there were negligible retail lending to private sector employees. The short to medium term impact on retail portfolio due to the pandemic was immaterial. The Branch is fully committed to help its customers through this turbulent period as directed by the CBO. The Branch continued to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic. The Branch continually reviews its precautionary and administrative measures in response to changes on the ground.

**24 Risk management (continued)**

**Impact on SICR**

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

**Impact on ECL**

The Branch's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Branch operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio/segment and hence a post-model adjustments was needed. However, given the fact that the model changes take a significant amount of time to develop and test and the data limitation issues noted above, post model adjustments were applied for the foreseeable future.

Post-model adjustments (PMAs) and management overlays made in estimating the reported ECL as at 31 December 2021 are set out as follows:

As on the reporting date the collective provision held by the Branch through management overlays amounts to 14.41% of total impairment based on latest available PD term structure and macro-economic forecasts. This is in addition to the existing ECL provision considered on a conservative practices to mitigate any unforeseen impacts in the portfolio. The Branch will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

**(PMAs) and management overlays:**

Given the ever evolving nature of the current health and economic crisis, the Branch's management is of the view that the forward looking macro-economic data and the PD term structures published by the economists and rating agencies during 2022 is yet to reasonably reflect the impact of the economic disruption caused by Covid-19 and also to fully factor in the financial intervention by the relevant state authorities.

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

- Customer, industry, sector specific evolving credit risk and appetite;
- Impact of Covid-19; and
- Mitigating impacts of government support measures to the extent possible

In determining above, the management has considered following assumptions:

Scenario weightings of 20%, 70%, 10% for Base, Downside and Upside scenarios.

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

(Expressed in Omani Rial '000)

**24 Risk management (continued)**

**(PMAs) and management overlays (continued):**

| **Sensitivity of impairment estimates** | **As at 31 December 2021** | |
|---|---|---|
| | **ECL** | **Impact on ECL** |
| ECL on non-impaired loans under IFRS9 | 565 | - |
| **Simulations:** | | |
| Upside case - 100% weighted | 236 | (329) |
| Base case - 100% weighted | 454 | (111) |
| Downside case - 100% weighted | 636 | 71 |

**Accounting for modification loss and government grant**

In case of Corporate customers, the Branch plans to add the simple interest accrued during the deferral period to the principal outstanding and either extend the original maturity period of the loan or increase the instalments at the end of the days past (DP). The Branch has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures did not resulted in derecognition of financial assets.

Further, the impact of day one modification loss and the benefit granted by the Branch was not considered material for the period which has amounted to RO 31K as at 31 December 2021.

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

| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Loan and balances | 24,633 | 15,114 | 557 | 40,304 |
| Off-balance sheet exposures | 1,528 | 412 | - | 1,940 |
| Total exposure to customers benefiting from payment deferrals | 1,153 | 3,553 | - | 4,706 |
| Total ECL on exposure to customers benefiting from payment deferrals | 17 | 336 | - | 353 |
| Of which: | | | | |
| Deferred amount | 254 | 230 | - | 484 |
| Allowances for impairment (ECL) | 4 | 59 | - | 63 |
| Carrying amount | 258 | 289 | - | 547 |

**Impact on the Capital Adequacy**

Besides, the Bank has also applied in its capital adequacy calculations the "prudential filter" under interim adjustment arrangement for Stage 2 ECL as per CBO circular no BSD/CB/2020/005 dated 3 June 2020. The impact of above filter on the Bank's regulatory capital ratio is 26 bps.

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

(Expressed in Omani Rial '000)

**24 Risk management (continued)**

**Management of credit risk**

Credit risk management encompasses identification, assessment, measurement, monitoring and control of the credit exposures. The procedure adopted by the Branch in this regard is detailed in the loan policy. For risk management reporting purposes the Branch considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The credit limits to borrowers in the commercial segment is considered after a comprehensive qualitative evaluation of the borrower's background, past and projected performance, overall financial position, industry prospects, key risk factors, repayment capacity, availability/adequacy of security, etc. The proposal will be initially examined from the Branch's prudential levels of exposure to the borrower, group, industry, the quality of asset, return on the asset and past experience with the promoters/group, if any.

The Branch policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessment before being provided. The agreements specify monetary limits to the Branch obligations.

Collateral for loans, guarantees and letters of credit are usually in the form of cash, inventory, receivables or other property. The Branch endeavors to obtain commercial mortgage of inventory /receivables/movables as security for working capital facilities. In addition, personal guarantees of the partners/directors are also obtained, where available. In line with the local banking practices, assignment of receivables in favour of the Branch is considered as acceptable primary security in case of contract financing and short-term advances. Pledge of equity shares traded on the Muscat Securities Market is also considered as primary/collateral security.

The borrowers' performance is monitored through a regular scrutiny of operations of the borrowers' accounts and periodic review of financial data.

The Branch Credit Committee (BCC) consists of the Chief Executive Officer, Chief Manager (Client Services) and one local based officer of at least Deputy Manager grade and will have a quorum of two members. The BCC is responsible for overall acceptability of the proposals put up by the Chief Manager (Credit).

**Collateral securities**

The Branch holds collateral against loans, advances and financing to customers in the form of mortgage interests over property, other registered securities, assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and updated once in three years, except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against loans, advances and financing is shown below:

| **Against total loan and advances** | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Land and building | 700 | 700 |
| Cash margin and fixed deposits (Note 7) | 1,780 | 1,829 |
| **Total** | 2,480 | 2,529 |

## 24 Risk management (continued)

### Liquidity risk

Liquidity is the availability of funds, or assurance that funds will be available to honour all cash outflow commitments as they fall due. These commitments are generally met through cash flows generated from the normal business operations of the Branch and through borrowings from other branches of the Head Office and from other banks. Assets readily convertible into cash either through sale or through pledge for raising resources also add to liquidity. Liquidity risk arises in the general funding of the Branch activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Branch has access to diverse funding sources. Funds are arranged using a range of instruments including deposits and assigned capital. This enhances funding flexibility, reduces dependence on any one source of funds and generally lowers the cost of funds. The Branch strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Branch continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the over all strategy. In addition, the Branch holds certain liquid assets as part of its liquidity risk management strategy.

The Branch is managing its liquidity position in terms of CBO circular BM 955. The position of MAL cumulative gaps as on 31 December 2021 and 2020 is well within the revised circular dated BSD/2018/02 applicable w.e.f. 1 April 2018.

**(Expressed in Omani Rial '000)**

## 24 Risk management (continued)

### Liquidity risk (continued)

**Year 2021**

| No. | Inflows (Assets and OBS) | Upto 1 month | 1 - 3 months | 3-6 months | 6-9 months | 9-12 months | 1-3 years | 3 - 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Cash on Hand | 184 | - | - | - | - | - | - | - | 184 |
| 2 | Deposits with CBO | 298 | 298 | 202 | 194 | 194 | 187 | 15 | 1,136 | 2,524 |
| 3 | Balances due from HO/Affiliates/Branches | 22 | - | - | - | - | - | - | - | 22 |
| 4 | Balances due from other banks | 4,304 | 10,859 | 4,213 | - | - | 9,625 | - | - | 29,001 |
| 5 | Investments | - | - | 1,000 | - | - | - | - | - | 1,000 |
| 6 | Overdrafts | 335 | 335 | 335 | 335 | 335 | 1,677 | 1,678 | 1,678 | 6,708 |
| 7 | Loans and Advances | 11,047 | 7,036 | 10,936 | 1 | - | 483 | 54 | 2,917 | 32,474 |
| 8 | Fixed Assets | - | - | - | - | - | - | - | 31 | 31 |
| 9 | Other Assets | 101 | - | - | - | - | - | - | - | 101 |
| | Total | 16,291 | 18,528 | 16,686 | 530 | 529 | 11,972 | 1,747 | 5,762 | 72,045 |
| | **Outflows (Liabilities and OBS)** | | | | | | | | | |
| 1 | Current Deposits | 525 | 525 | 394 | 263 | 263 | - | - | 657 | 2,627 |
| 2 | Saving Deposits | 43 | 43 | 43 | 43 | 43 | 216 | 216 | 212 | 859 |
| 3 | Time Deposits | 456 | 46 | 101 | 142 | 335 | 278 | 706 | 884 | 2,948 |
| 4 | Balances due to HO/Affiliates/Branches | 5,715 | 19,443 | 8,160 | 3,080 | - | - | - | - | 36,398 |
| 5 | Prov. other than for Loan Losses and Investment reserve | (4) | - | - | - | - | - | - | - | (4) |
| 6 | Other Liabilities | 275 | - | - | - | - | - | - | - | 275 |
| 7 | Unutilized portion of Overdraft and Loans and Advances | 497 | 497 | 497 | 497 | 497 | - | - | - | 2,485 |
| 8 | Capital | - | - | - | - | - | - | - | 20,550 | 20,550 |
| 9 | Reserves | - | - | - | - | - | - | - | 7,957 | 7,957 |
| 10 | Current Year Profit | - | - | - | - | - | - | - | 435 | 435 |
| | Total | 7,507 | 20,554 | 9,195 | 4,025 | 1,138 | 494 | 922 | 30,695 | 74,530 |
| | Cumulative Liabilities | 7,507 | 28,061 | 37,256 | 41,281 | 42,419 | 42,913 | 43,835 | 74,530 | |
| | Gap | 8,784 | (2,026) | 7,491 | (3,495) | (609) | 11,478 | 825 | (24,933) | |
| | Cumulative Gap | 8,784 | 6,758 | 14,249 | 10,754 | 10,145 | 21,623 | 22,448 | (2,485) | |
| | Cumulative Gap as a percentage of Cumulative liabilities | 117 | 24 | 38 | 26 | 24 | 50 | 51 | (3) | |

(Expressed in Omani Rial '000)

**24 Risk management (continued)**

**Liquidity risk (continued)**

**Year 2020**

| No. | Inflows (Assets and OBS) | Upto 1 month | 1 - 3 months | 3-6 months | 6-9 months | 9-12 months | 1-3 years | 3 - 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Cash on Hand | 168 | - | - | - | - | - | - | - | 168 |
| 2 | Deposits with CBO | 154 | 154 | 162 | 154 | 154 | 159 | 12 | 795 | 1,744 |
| 3 | Balances due from HO/Affiliates/Branches | 49 | - | - | - | - | - | - | - | 49 |
| 4 | Balances due from other banks | 11,676 | - | - | - | | 12,496 | - | - | 24,172 |
| 5 | Investments | - | - | - | - | - | 1,000 | - | - | 1,000 |
| 6 | Overdrafts | 1,084 | 510 | 512 | 512 | 364 | 327 | 1,257 | 2,694 | 7,260 |
| 7 | Loans and Advances | 7,565 | 7,352 | 6,300 | 384 | 1,896 | 678 | 105 | 1,035 | 25,315 |
| 8 | Fixed Assets | - | - | - | - | - | - | - | 28 | 28 |
| 9 | Other Assets | 516 | - | - | - | - | - | - | - | 516 |
| | Total | 21,212 | 8,016 | 6,974 | 1,050 | 2,414 | 14,660 | 1,374 | 4,552 | 60,252 |
| | **Outflows (Liabilities and OBS)** | | | | | | | | | |
| 1 | Current Deposits | 310 | 420 | 349 | 900 | 208 | - | - | 451 | 2,638 |
| 2 | Saving Deposits | 62 | 62 | 62 | 60 | 46 | 320 | 361 | 381 | 1,354 |
| 3 | Time Deposits | 574 | 228 | 404 | 610 | 244 | 360 | 39 | 1,075 | 3,534 |
| 4 | Balances due to HO/Affiliates/Branches | 3,521 | 7,820 | 7,728 | - | 4,459 | - | - | - | 23,528 |
| 5 | Prov. other than for Loan Losses and Investment reserve | - | - | - | (6) | - | - | - | - | (6) |
| 6 | Other Liabilities | 465 | - | - | 228 | 1 | 1 | - | 2 | 697 |
| 7 | Unutilized portion of Overdraft and Loans and Advances | 1,065 | 1,065 | 1,065 | 1,064 | 1,064 | | - | - | 5,323 |
| 8 | Capital | - | - | - | - | - | - | - | 20,550 | 20,550 |
| 9 | Reserves | - | - | - | - | - | - | - | 7,489 | 7,489 |
| 10 | Current Year Profit | - | - | - | - | - | - | - | 468 | 468 |
| | Total | 5,997 | 9,595 | 9,608 | 2,856 | 6,022 | 681 | 400 | 30,416 | 65,575 |
| | Cumulative Liabilities | 5,997 | 15,592 | 25,200 | 28,056 | 34,078 | 34,759 | 35,159 | 65,575 | |
| | Gap | 15,215 | (1,579) | (2,634) | (1,806) | (3,608) | 13,979 | 974 | (25,864) | |
| | Cumulative Gap | 15,215 | 13,636 | 11,002 | 9,196 | 5,588 | 19,567 | 20,541 | (5,323) | |
| | percentage of Cumulative liabilities | 254 | 87 | 44 | 33 | 16 | 56 | 58 | (8) | |

**(Expressed in Omani Rial '000)**

## 24 Risk management (continued)

**Liquidity risk (continued)**

The maturity profile of the assets, liabilities and equity at 31 December 2021 was as follows:

| | *Due on demand and up to 1 month* | *2 months to 6 months* | *7 months to 1 year* | *Between 1 year and 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|
| **As at 31 December 2021** | | | | | | |
| Cash and balances with the CBO | 482 | 500 | 388 | 202 | 1,136 | 2,708 |
| Due from affiliates and other banks | 4,326 | 15,072 | - | 9,625 | - | 29,023 |
| Loans and advances to customers | 11,382 | 18,642 | 671 | 3,892 | 4,595 | 39,182 |
| Investments at fair value through other comprehensive income | - | 1,000 | - | - | - | 1,000 |
| Equipment | - | - | - | - | 31 | 31 |
| Other assets | 101 | - | - | - | - | 101 |
| **Total assets** | 16,291 | 35,214 | 1,059 | 13,719 | 5,762 | 72,045 |
| Deposits from customers | 1,024 | 1,152 | 1,089 | 1,416 | 1,753 | 6,434 |
| Due to affiliates | 5,715 | 27,603 | 3,080 | - | - | 36,398 |
| Other liabilities (including income tax payable) | 275 | - | - | - | - | 275 |
| Equity | - | 2 | - | 4 | 28,932 | 28,938 |
| **Total liabilities and equity** | 7,014 | 28,757 | 4,169 | 1,420 | 30,685 | 72,045 |

(Expressed in Omani Rial '000)

**24 Risk management (continued)**
**Liquidity risk (continued)**

| | *Due on demand and upto 1 month* | *2 months to 6 months* | *7 months to 1 year* | *Between 1 year and 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|
| As at 31 December 2020 | | | | | | |
| Cash and balances with the CBO | 322 | 316 | 308 | 171 | 795 | 1,912 |
| Due from affiliates and other banks | 11,725 | - | - | 12,496 | - | 24,221 |
| Loans and advances to customers | 8,649 | 14,674 | 3,156 | 2,367 | 3,729 | 32,575 |
| Investments at fair value through other comprehensive income | - | 1,000 | - | - | - | 1,000 |
| Equipment | - | - | - | - | 28 | 28 |
| Other assets | 516 | - | - | - | - | 516 |
| Total assets | 21,212 | 15,990 | 3,464 | 15,034 | 4,552 | 60,252 |
| Deposits from customers | 946 | 1,525 | 2,068 | 1,080 | 1,907 | 7,526 |
| Due to affiliates | 3,521 | 15,548 | 4,459 | - | - | 23,528 |
| Other liabilities (including income tax payable) | 465 | - | 229 | 1 | 2 | 697 |
| Equity | - | - | - | 6 | 28,495 | 28,501 |
| Total liabilities and equity | 4,932 | 17,073 | 6,756 | 1,087 | 30,404 | 60,252 |

**Management of liquidity risk**
Managing liquidity is a fundamental component in the safe and sound management of the Branch and involves prudently managing assets and liabilities, both as to cash flow and concentration, to ensure that cash inflows have an appropriate relationship to cash outflows. Liquidity management is conducted within the context of a strategic liquidity plan under ordinary or reasonably expected business conditions, in conjunction with other asset/liability management considerations, such as interest and foreign exchange rate risk and other risks. However, since liquidity determines the day-to-day solvency of the Branch it is to be one of the principal considerations of the asset/liability management program. The process for management of liquidity at the Branch would incorporate systems for complying with the local regulations in this regard. In terms of CBO guidelines vide Circular No. BM 1147 dated 26 October 2016, effective 1 January 2018, the standard for NSFR has become effective, with a minimum ratio of 100%. The Branch is following the instructions, and the NSFR ratio as on 31 December 2021 was 334%.

**Exposure to liquidity risk**
The lending ratio, which is the ratio of total loans and advances to customer deposits and capital, is monitored on a daily basis in line with regulatory guidelines. Internally the lending ratio is set at a more conservative level than required by regulation. The Bank also manages its liquidity risk by monthly monitoring the liquid ratio, i.e. net liquid assets to total assets. For this purpose net liquid assets include cash and cash equivalents and investment grade debt securities for which there is an active and liquid market.

Details of the reported lending and liquid ratio were as follows:

(Expressed in Omani Rial '000)

**24 Risk management (continued)**

**Liquidity risk (continued)**

**Exposure to liquidity risk (continued)**

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | **Lending ratio** | **Liquid ratio** | **Lending ratio** | **Liquid ratio** |
| Average for the year | 82.16% | 17.86 | 73.18% | 29.97% |
| Maximum for the year | 90.60% | 29.82 | 86.10% | 45.22% |
| Minimum for the year | 69.91% | 11.02 | 48.28% | 21.98% |

| **Available stable funding** | **Associated factor** | **Unweighted amount** | **Weighted amount** |
|---|---|---|---|
| Tier 1 capital | 100% | 23,118 | 23,118 |
| Tier 2 capital ( excluding Tier 2 instruments with residual maturity of less than one year) | 100% | 316 | 316 |
| Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers | 95% | 910 | 865 |
| Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers | 90% | 177 | 159 |
| Funding with residual maturity of less than one year provided by non-financial corporate customers, Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks | 50% | 1,235 | 618 |
| **Total Available Stable Funding** | | **25,756** | **25,076** |
| **Required stable funding** | | | |
| Coins, bank notes and reserves with CBO | 0% | 184 | - |
| Unencumbered Level 1 assets, excluding coins, banknotes and reserves with CBO | 5% | 1,000 | 50 |
| All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs | 50% | 11,697 | 5,849 |
| All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities | 100% | 1,463 | 1,463 |
| **Sub total (A)** | | 14,344 | 7,362 |
| **Off balance sheet exposures** | | | |
| Irrevocable and conditionally revocable credit and liquidity facilities to any client | 5% | 1,925 | 96 |
| Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities | 5% | 1,164 | 58 |
| **Sub total (B)** | | 3,089 | 154 |
| **Total Required Stable Funding (A+B)** | | | 7,516 |
| **NSFR (%)** | | | 334 |

**(Expressed in Omani Rial '000)**

## 24 Risk management (continued)

### Liquidity risk (continued)

The common disclosure template for Liquidity Coverage Ratio (LCR) based on the CBO's circular BM 1127 for Basel III Framework on LCR and LCR disclosure standards is as under:

| Sr. NO. | High quality liquid assets | Total Unweighted value (avg). | Total weighted value (avg). |
|---|---|---|---|
| 1 | Total High Quality Liquid Assets (HQLA) | 317,786 | 3,178 |
| 2 | **TOTAL CASH OUTFLOWS** | 15,101 | - |
| 3 | **TOTAL CASH INFLOWS** | 3,254 | - |
| | | | **Total Adjusted Value** |
| 4 | TOTAL HQLA | | 3,178 |
| 5 | TOTAL NET CASH OUTFLOWS | | 2,913 |
| 6 | **LIQUIDITY COVERAGE RATIO (%)** | | 109 |

The Bank also monitors the liquidity through Liquidity Coverage ratio (LCR) and Net Stable Funding Ratio (NSFR). Current levels of these ratios are given below.

| | **31 December 2021** | **31 December 2020** |
|---|---|---|
| LCR | 109% | 147% |
| NSFR | 334% | 400% |
| Leverage ratio | 32.06% | 37.80% |

**24 Risk management (continued)**

**Liquidity risk (continued)**

The Chief Executive Officer of the Branch has the responsibility for managing and controlling the day-to-day liquidity. Specifically, he is responsible for :

- developing liquidity and funding policies for the Branch based on the Liquidity Management Policy laid down by the International Banking Group and getting the same approved by RCOM;
- arranging review of such policy at least once in a year;
- monitoring economic, political and other operating conditions to forecast potential liquidity needs/risks;
- implementing the above-mentioned liquidity and funding policies;
- ensuring that the liquidity is managed and controlled at the Branch within the liquidity management and funding management parameters;
- ensuring that the liquidity position at the Branch is properly analysed and duly reported to International Banking Group as required;
- ensuring that the exceptions are duly reported to International Banking Group, wherever required;
- ensuring that an internal inspection/audit function reviews the liquidity and funding operations independently to ensure that the liquidity management policies and procedures are being adhered to;
- developing lines of communication to ensure timely dissemination of the liquidity and funding policies and procedures to all individuals involved in the liquidity management and funding risk management process; and
- RCOM at the Branch has the responsibility to oversee the liquidity management function at the Branch, depending on its perception, can also set additional benchmarks for compliance for such period as it considers necessary.

**Market risk**

Market risk is defined as the risk that the value of ‘on’ and ‘off’ balance sheet positions will be adversely affected by movements in market interest rate, currency exchange rates, equity and commodity prices. In respect of Branch operations, the major components of market risk include exchange rate risk and interest rate risk. These include:

- open positions in foreign exchange including foreign exchange derivatives held by the Branch in any currency other than its reporting currency.
- interest rate sensitive securities (excluding loans and advances) including interest rate derivatives held by the Branch.

RCOM, headed by the Chief Executive Officer, is responsible for implementing the market risk management policy, including managing market risk, adherences to specified limits, monitoring regulatory changes, reporting changes in market risk capital requirements, potential risks from new instruments and optimisation of capital for market risk.

(Expressed in Omani Rial '000)

## 24 Risk management (continued)

**Market risk (continued)**

*Exchange rate risk*

The Branch is exposed to exchange rate risk through its transactions in foreign currencies. The major foreign currency to which the Branch is exposed is the US Dollar which is pegged against the RO and accordingly currency risk is considered minimal. Exchange rate risk is the exposure of the Branch to the potential impact of movements in foreign exchange rates. The risk is that of adverse fluctuations in exchange rates and that it may result in a loss to the Branch. Foreign exchange risk arises when there are unhedged currency mismatches in assets and liabilities of the Branch. This risk continues until the open position is covered by means of a hedging transaction. The amount at risk is a function of the magnitude of potential exchange rate changes and the size and duration of the foreign currency exposure.

The Branch transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. The Branch ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies when considered appropriate.

*Management of exchange rate risk*

As the volatility of exchange rates are usually at a relatively higher level as compared to other prices, the risks from adverse movement of exchange rates could be very significant. Therefore the exchange rate risks are monitored on a continuous basis and the management processes are designed in such a manner that all such risks are always within the approved limits set for the purpose. Currency exposure limits (in the form of daylight and overnight exposures) are set for the Branch by the Treasury Management Group at the International Banking Group. The Chief Executive Officer of the Branch has the responsibility for managing and controlling the day-to-day exchange risk positions.

The details of Net Overnight forex open position as on 31 December 2021 and 2020 is shown below:

| 2021 | Spot | | | | | Overall |
|---|---|---|---|---|---|---|
| Currencies | Assets | Liabilities | Net | Forward | Net | exposure |
| US Dollar | 93,803 | 94,382 | 579 | - | 579 | 223 |
| Euro | 5 | 5 | - | - | - | - |
| UAE Dhiram | 121 | - | 121 | - | 121 | 13 |
| GBP | 3 | - | 3 | - | 3 | 2 |
| Indian Rupee | 27 | - | 27 | - | 27 | - |
| Total exposure | | | | | | 238 |

The NOP as percentage of Tier I Capital is 0.04 % and is well within the maximum regulatory limit of 40%.

| 2020 | Spot | | | | | Overall |
|---|---|---|---|---|---|---|
| Currencies | Assets | Liabilities | Net | Forward | Net | exposure |
| US Dollar | 70,169 | 70,174 | (5) | - | (5) | 2 |
| Euro | 1 | 9 | (8) | - | (8) | 4 |
| UAE Dhiram | 4 | - | 4 | - | 4 | 2 |
| Indian Rupee | 274 | - | 274 | - | 274 | 2 |
| Total exposure | | | | | | 10 |

**24 Risk management (continued)**

**Market risk (continued)**

*Interest rate risk*

Interest rate risk is the adverse impact that changes in interest rates may have on the Branch's profit and on the economic/market value of its assets and liabilities. Interest rate risk management process would be conducted in close coordination with and as a part of other asset/liability management processes such as the processes to manage liquidity risk, exchange risk etc .The main focus of interest risk management at the Branch is the stabilisation of the net interest income (NII). The assets and liabilities at the Branch are predominantly in Omani Rial and US Dollars, while exposures in other major currencies like Euro and Pound Sterling are insignificant. As the interest rates for various currencies do not move in tandem, the interest rate exposures in both RO and USD would be monitored separately.

The Branch operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature at different times or in different amounts. In case of floating interest rate assets and liabilities, the Branch is also exposed to basic risk, which is different in repricing characteristics of the various floating rate indices, such as savings rate and different types of interest.

There have not been any significant changes in interest rate risk management process of the Branch during the year.

The Branch's interest rate sensitivity position based on contractual re-pricing arrangements at 31 December 2021 and 2020 are set out in Note 22 (a).

*Management of interest rate risk*

Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Branch's business strategies. The Branch manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities through various means. Significant changes can be made in gap positions to adjust the profile as market outlook changes.

Managing interest rate risk is a fundamental component of the safe and sound management. Sound interest rate risk management involves prudent management of interest rate risk positions for optimisation of return while remaining within the tolerance limits set for various risk parameters. The purpose of the present policy is to lay down procedures for management of interest rate risk. Interest rate risk position at the Branch would be monitored and managed by the Branch on a monthly basis subject to the overall monitoring from the International Banking Group, Mumbai (IBG). Risk limits can be defined either in terms of Earnings at Risk (EAR) or Value at Risk (VAR). In addition, limits may also be set in terms of allowable amounts of mismatched positions for specified or cumulative maturity periods as a percentage of the total assets. For the Branch, a reasonable stabilisation of NII in foreign currency terms (i.e. setting tolerance level in terms of EAR as percentage of the NII) would be the target.

The use of hedging techniques is one of the means of managing and controlling interest rate risk. In this regard, many different financial instruments can be used for hedging purposes. The more commonly used, however, are derivative instruments. Examples include forward rate agreements, currency and interest rate swaps, interest rate futures, interest rate options etc. Use of derivatives shall be done only after obtaining the specific approval from the Regional Centre / IBG.

The Chief Executive Officer at the Branch is responsible for day-to-day management and control of interest rate risks at their end. Specifically, he would be responsible for:

- establishing and utilising a method for accurately measuring the interest rate risk exposures of the Branch;
- developing interest rate risk management policies for the Branch (if required) based on the interest rate risk management policy laid down by the International Banking Group and getting the same approved by the RCOM;
- implementing the above-mentioned interest rate risk management policy;
- arranging for review of such policy at least once in a year;

**24 Risk management (continued)**

**Market risk (continued)**

*Management of interest rate risk*

- ensuring close monitoring of money market positions, wherever applicable;
- ensuring that the interest rate risk positions of the Branch are properly analysed and duly reported to IBG as required;
- ensuring that the exceptions are duly reported to the Regional Head / Chief General Manager (Foreign Offices) for confirmation, wherever required;
- ensuring that an internal inspection/audit function reviews the interest rate risk management functions independently to ensure that the laid down policies & procedures are being adhered to; and
- developing lines of communication to ensure timely dissemination of the interest rate risk management policies and procedures to all individuals involved in the management of interest rate risk.

RCOM at the Branch would have the responsibility to oversee the interest rate risk management function at the Branch depending on its perceptions, can also set additional benchmarks for compliance for such period as it considers necessary.

**Operational risk**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. An operational risk event is defined as an incident / experience that has caused or has the potential to cause material loss to the Branch either directly or indirectly with other incidents. Risk events are associated with people, process and technology involved with the product.

Operational risk management policy aims to set out the broad outlines of the processes by which the operational risks carried by the Branch shall be managed i.e. identified, measured, controlled and monitored in such a way that the risk taken is within the specified risk tolerance parameters. The other objectives of the Branch's operational risk management policy are as follows:

**Management of operational risk**

Operational risk management policy aims to set out the broad outlines of the processes by which the operational risks carried by the Branch shall be managed i.e. identified, measured, controlled and monitored in such a way that the risk taken is within the specified risk tolerance parameters. The other objectives of the Branch's operational risk management policy are as follows:

- To reduce impact and probability of loss events through the introduction of sound practices for operational risk, reduce the probability and potential impact of losses, proactively and cost effectively.
- To improve controls and mitigate risks by helping functional areas improve controls towards mitigation of significant operational risks throughout the Branch.
- To have better capital management and help in meeting the capital adequacy requirements set out by the CBO and Bank's Corporate Office, including providing capital for unexpected losses from operational risks.
- To create awareness and develop a common understanding of Operational Risk among the Branch's employees at all levels.
- To assign risk ownership and ensure that there is clear ownership for each element of operational risk and assign clear responsibility for risk management and mitigation.
- To comply with regulation and meet the regulatory requirements emanating from the relevant pronouncements of the CBO.
- To reward better risk management through appropriate product pricing commensurate with the level of risk undertaken.
- To improve quality of services/products/processes by applying proven risk management techniques to improve the overall quality of Branch's products, processes, and services.

(Expressed in Omani Rial '000)

## 24 Risk management (continued)

### Operational risk (continued)

For the purpose of operational risk management, the operations of the Branch are divided into eight various business lines. All operational loss events are classified under one of the following heads:

- Internal fraud,
- External fraud,
- Employment practices and workplace safety,
- Clients, products and business practices,
- Damage to physical assets,
- Business disruption and system failures,
- Execution, delivery and process management,
- Legal and regulatory risk.

Risk identification is paramount for the subsequent development of a viable operational risk monitoring and control system. Risk identification will include both internal factors (such as the Branch's structure, the nature of the Branch's activities, the quality of the Branch's human resources, organisational changes and employee turnover) and external factors (such as changes in the industry and technological advances) that could adversely affect the achievement of the Branch's objectives.

The operational risk charge calculated as on 31 December 2021 and 2020 in the light of BASEL III is submitted below:

**2021**

| Sr. No. | Details - Risk Weighted Assets - Operational Risk | Amount |
|---|---|---|
| 1 | Capital charge for operational risk under basic indicator approach | 220 |
| 2 | Total risk weighted asset - operational risk | 2,750 |

* Average of Gross Annual Income for past 3 yrs (1,512+1,516+1,376) * 15%. 220

**2020**

| Sr. No. | Details - Risk Weighted Assets - Operational Risk | Amount |
|---|---|---|
| 1 | Capital charge for operational risk under basic indicator approach | 212 |
| 2 | Total risk weighted asset - operational risk | 2,649 |

* Average of Gross Annual Income for past 3 yrs (1,516+1,376+1,346)*15%. 211.9

## 25 Capital management

### Regulatory capital

The Branch's lead regulator, the CBO, sets and monitors capital requirements for the Branch as a whole. In implementing current capital requirements, the CBO requires the Branch to maintain a prescribed ratio of total capital to total risk-weighted assets. The Branch calculates requirements for market risk in its trading portfolios based upon the model prescribed by the CBO and in the absence of a credit rating model presently is using 100% risk weightage for all the credit risk. The Branch’s regulatory capital is analysed into two tiers:

Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

(Expressed in Omani Rial '000)

## 25 Capital management (continued)

### Regulatory capital (continued)

Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as investment at fair value through other comprehensive income. Various limits are applied to elements of the capital base. The amount of tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Branch’s policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on Head Office return is also recognised and the Branch recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Branch and its individually regulated operations have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Branch’s management of capital during the period. The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off-balance sheet exposures weighted according to broad categories of risk. During the past year, the Branch had complied with all its externally imposed capital requirements.

There were no penalties imposed on the Branch by the CBO during its examination in the year.

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

| | 2021 | 2020 |
|---|---|---|
| **Capital base** | | |
| Tier I capital | 23,555 | 23,118 |
| Tier II capital | 463 | 316 |
| **Total capital base** | 24,018 | 23,434 |
| **Risk-weighted assets** | | |
| Balance sheet items | 66,321 | 53,152 |
| Off-balance sheet items | 1,248 | 836 |
| **Total risk weighted assets in Banking Book** | 67,569 | 53,988 |

(Expressed in Omani Rial '000)

**25 Capital management (continued)**

| Regulatory capital (continued) | 2021 | 2020 |
|---|---|---|
| Operational risk | 2,750 | 2,649 |
| Market risk | 195 | 533 |
| **Total weight of operational and market risk:** | 2,945 | 3,182 |
| **Total risk-weighted assets** | 70,514 | 57,170 |
| **Capital adequacy ratio** | | |
| Total capital base | 34.06% | 40.99% |
| Tier I capital | 33.40% | 40.44% |

The minimum required ratio by Basel - III norms is 12.25 % which includes Capital Conservation buffer of 1.25% in accordance with the CBO stipulated guidelines. The Branch is maintaining the ratio above the stipulated norms.

The risk asset ratio, calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2014, minimum capital adequacy ratio requirement for the year is 11% (excluding capital conservation buffer of 1.25% allowed as concession during the year, against 2.5% stipulated in the initial circular). The capital adequacy ratio working is as follows:

| | Basel III 2021 | Basel III 2020 |
|---|---|---|
| Common Equity Tier 1 (CET1) | 23,555 | 23,118 |
| Additional Tier 1 | - | - |
| Tier 1 | 23,555 | 23,118 |
| Tier 2 | 463 | 316 |
| **Total regulatory capital** | 24,018 | 23,434 |
| **Risk-weighted assets** | | |
| Credit risk | 67,569 | 53,988 |
| Market risk | 195 | 533 |
| Operational risk | 2,750 | 2,649 |
| **Total risk-weighted assets** | 70,514 | 57,170 |
| **Capital adequacy ratio** | | |
| CET1 capital expressed as a percentage of total risk-weighted assets | 33.40% | 40.44% |
| Total tier I capital expressed as a percentage of total risk-weighted assets | 33.40% | 40.44% |
| Tier II capital expressed as a percentage of total risk-weighted assets | 0.66% | 0.55% |
| Total regulatory capital expressed as a percentage of total risk-weighted assets | 34.06% | 40.99% |

**25 Capital management (continued)**

**Capital allocation**

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how the capital is allocated within the Branch to particular operations or activities, it is not the sole basis used for decision making. Factors such as synergies with other operations and activities, the availability of management and other resources are also taken in to consideration to fit the activity for the Branch's long term strategic objectives.

**26 Subsequent events**

There were no events occurring subsequent to 31 December 2021 and before the date of the report that are expected to have a significant impact on these financial statements.