BANK DHOFAR SAOG

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2023

Registered and principal place of business:

Bank Dhofar SAOG
Central Business District
P.O. Box 1507, Ruwi
Postal Code 112
Sultanate of Oman

BANK DHOFAR SAOG

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FOR THE YEAR ENDED 31 DECEMBER 2023

THE BOARD OF DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present Bank's financial statements for year ended 31 December 2023.

Oman's economic recovery is going strong, and inflation is well under control due to favourable oil prices and ongoing reform momentum. The average oil price during the year 2023 was at US$ 82/b which was 49% higher than budgeted oil price of US$ 55/b. As per preliminary results of 2023, the budget is expected to generate a surplus of RO 931 million against a budgeted deficit of RO 1,300 million for financial year 2023, this is attributable to the increase in oil prices and continued fiscal prudence.

Oman was upgraded to BB+ stable outlook by Fitch and Ba1 stable outlook by Moody's, because of large fiscal surplus on the backdrop of high oil revenues and reduction of overall debt.

2023 Financial Overview

The key highlights of Bank's financials are summarized below:

	31 December 2023	31 December 2022	Variance
	RO million	RO million	%
Net Interest Income and Income from Islamic Financing	110.82	122.42	(9.47)%
Non funded Income	33.26	20.74	60.41%
Operating income	144.08	143.15	0.65%
Operating expenses	68.65	69.68	(1.49)%
Expected credit losses (net of recovery of bad debts)	31.66	33.27	(4.82)%
Net profit for the year	38.76	34.17	13.42%
Total assets	4,685.80	4,317.33	8.53%
Net loans and Islamic financing	3,765.58	3,430.49	9.77%
Customer deposits	3,299.22	2,891.82	14.09%
Total equity	732.95	717.08	2.21%

The Bank reported net profit of RO 38.76 million for the year ended 31 December 2023 compared to RO 34.17 million for the comparative year which represents an increase of 13.42%.

Bank's interest income on loans and Islamic financing receivables reached RO 261.61 million compared to RO 221.27 million resulting in an year on year (YoY) growth of 18.23%. However, with continued increase in Fed rates, the interest expense offset the growth in net interest income and recorded YoY increase of 52.54%. Consequent to increase in interest expense, the net interest and financing income declined and stood at RO 110.82 million for the year ended 31 December 2023 compared to RO 122.42 million for the year 2022.

Non-funded income grew significantly by 60.41% reaching RO 33.26 million compared to RO 20.74 million for the year 2023 and 2022 respectively. The Growth in Non-Funded Income came from across all business segments, including Wholesale, Retail and Islamic Business.

With increase in Non-funded Income, total operating income stood at RO 144.08 million for the year ended December 2023 as compared to RO 143.15 million for the comparative period of 2022, showing Increase of 0.65%.

Bank continued to manage its operating expenses that were lower than last year by (1.49) % and declined to RO 68.65 million as at the end of 31 December 2023 as compared to RO 69.68 million for the previous financial year. Due to higher operating income and lower costs, the Bank's cost to income ratio improved to 47.6% as at 31 December 2023 compared to 48.7% for the same period last year.

Net loans and advances including Islamic financing, exhibited YoY increase of 9.77% and reached RO 3.77 billion as at 31 December 2023 from RO 3.43 billion at the 31 December 2022. Customer Deposits including Islamic deposits, also witnessed a growth and recorded YoY increase of 14.09%. Customer deposits increased to RO 3.30 billion as at 31 December 2023 as compared to RO 2.89 billion as at end of previous year.

Net Expected Credit Loss 'ECL' for the year ending 2023 stood at RO 31.66 million after recoveries of RO 20.21 million as compared to RO 33.27 million after recovery of 11.25 million for the year 2022, a reduction of RO 0.84 million. Gross NPL ratio for the Bank decreased to 5.39% as at 31 December 2023 from 5.87% as at 31 December 2022. Net NPL, net of interest reserve and ECL stood at 2.02% as at 31 December 2023 compared to 2.00% at 31 December 2022.

The earnings per share (EPS) for year ended 31 December 2023 were at RO 0.009 as compared to RO 0.008 for the same previous year last year. The Return on Shareholder Equity (RoSE) increased from 6.19% as at 31 December 2022 to 6.90% as at 31 December 2023.

Key Strategic Initiatives in the year 2023

The Board and the Management continues to focus on building a more competitive and customer focused bank. We are meticulously accelerating the strategy to drive productivity and growth. We are focused on delivering on our transformation objectives while growing core business with relentless focus on execution.

The external credit ratings of the bank are Ba1 (Moody's), BB (S&P) and BB+ (Fitch) which continues to improve with the improved business environment and Bank's performance.

The Bank continued on its growth trajectory during the year 2023. In pursuit of its commitment to provide exceptional banking services to its customers and fulfilment of long-term goals towards all its all stakeholders, the Bank has been investing heavily in its product and Service offerings. This includes enhancement of digital channels, and expansion of branch network. The Bank has achieved 2nd largest branch network of 108 branches after adding 43 more branches to the distribution network in 2023 and significantly enhanced its geographic footprint. The Bank's network of ATM, CDM and MFK increased to 318 machines at 31 December 2023 from 233 units at 31 December 2022.

In addition to increasing its physical network, the Bank expanded its digital reach with Digital on-boarding going live in 2023 enabling customers to open accounts through digital means.

The Bank has also launched new segments for Child, Youth, Ladies and Rifaa to cater to the diverse needs of these segments. The Bank deployed a strong team of 50 relationship managers to grow priority banking business and established direct sales force as a new channel to provide doorstep banking services to its customers. The Banks has transitioned to Instant card creation and in country printing, powering the Bank to deliver cards to customers within 24 hours. The total number of transactions through digital channels has increased by 86.5% and the value of the transactions processed increased by 55.3% for the year ended 31 December 2023 compared to the year ended 31 December 2022.

During the year 2023 the Bank has set up the Asset management business and are in the process of expanding its product offering through this segment. The Banks has also set up Private Banking business to cater to unique banking needs to high and ultra-high net worth customers and Corporate Advisory services. In order to create enduring relationships with Corporates, Ministries, GREs, SMEs, HNIs, and retail banking clients, the Bank continues to focus on its customers through a dedicated relationship-led banking.

The Bank has Established partnership with MetLife insurance to provide comprehensive protection solutions to customers. The Bank launched Own LC discounting product in Transaction banking and established corporate Regional Manager Office in Sohar with Centralization of Corporate account opening process.

With expanding branch network and digital onboarding solutions, the Bank continued with its relentless focus on Customer Acquisition resulting in total customers crossing half a million mark at 532 thousand customers for both Conventional and Islamic business. This has given a strong impetus to all businesses for enhanced cross-selling opportunities and seamless execution of strategic initiatives.

Maisarah Islamic Banking Services - Financial Performance Highlights

Maisarah Islamic continued to grow throughout the year 2023. In pursuit of its commitment to provide excellent Islamic banking services to its customers and fulfilment of long-term goals of all its stakeholders, Maisarah has been investing heavily in its product and Service offerings. This includes enhancement of digital channels for banking, and expansion of branch network. During the year Maisarah has opened 12 new branches, bringing the total branch network to 22 branches across Sultanate of Oman.

During the year Maisarah Islamic Banking Services reported an encouraging Financial Performance. As at December 2023, Maisarah registered a profit before tax of RO 8.64 million compared to RO 8.34 million as at December 2022, reflecting a growth of 3.60% over last year. This growth is supported by healthy and prudent increase in diversified portfolio of earning assets, deposits, focus on enhancing fee-based income and effective management of its cost.

As at December 2023, Maisarah posted year to date Operating Profit (before ECL) of RO 11.70 million which is 0.95% above the last year operating profit of RO 11.59 million. With increased interest rates and continued liquidity challenges that resulted in an increase in cost of funds during the year 2023; Maisarah was able to offset higher cost of funds with significant increase in fees-based income which showed a increase of 91.51% to RO 4.06M as at December 2023 from RO 2.12M compared to last year.

With efficient cost management and increased efficiency played a pivotal role in sustaining growth, where total cost decreased by 2.10% to RO 11.20 million as at December 2023 from RO 11.44 million last year. Maisarah' s cost to income ratio continues to improve and reduced to 48.91% as at December 2023 from 49.67% during the same period last year.

Maisarah's gross financing portfolio grew to RO 672.09 million as at December 2023 from RO 555.48 million as at December 2022, thus posting a growth of 20.99% over same period last year. The Sukuk investment portfolio reduced by 3.09% from RO 93.06 million at December 2022 to RO 90.18 million at December 2023 owing to the maturity of certain Sukuk holdings by the Bank.

The total customer deposits of Maisarah reached RO 560.25 million as at December 2023, registering a growth of 18.65% compared to RO 472.20 million at December 2022. Maisarah total assets increased by 20.94% to RO 816.16 million at December 2023 from RO 674.83 million as at December 2022.

Capital Adequacy

The Bank continues to hold robust capital position of Core Equity Tier 1 Ratio (CET-1) of 12.99% as at 31 December 2023 (2022: 13.86%), Tier 1 Capital Ratio of 16.79% (2022: 18.97%) and Total Capital Adequacy Ratio of 17.48% (2022: 18.90%), compared to Regulatory Minimum of 8.25%, 10.25% and 12.25% respectively.

With continued investors interest, the bank successfully raised OMR 40 million Tier 1 perpetual securities (AT1 bonds) by way of private placement to investors at a competitive rate of 7.00%, replacing the OMR 40 million (AT1 bond) at the call date that was priced at 7.50%.

Distributed & Proposed Dividends

The Board of Directors in their meeting held on 28 January 2024 proposed 7.75% cash dividend and nil bonus share issue distribution for the year ended 31 December 2023, subject to Regulatory and Shareholders approval.

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

Year	2018	2019	2020	2021	2022
Cash Dividend	10%	3%	4%	2%	5%
Bonus Shares	7%	Nil	Nil	Nil	Nil

Awards & Accolades

Being a customer centric and innovation focused organization, the Bank continue to develop and offer retail, corporate and investment banking solutions to enhance customer experience. This was evidenced with the Bank receiving following awards during 2023.

- Best Digital Bank of the Year by TAS Business Awards
- Best Bank for Digital Solutions in Oman by Euromoney Awards for Excellence
- Fastest Branch Network Expansion in Oman award at the OER Business Summit 2023
- New Website of the Year award by Oman Banking and Finance Awards 2023 - OER
- Best Islamic Bank in Oman award by Middle East Banking Awards
- Best Corporate Bank Oman by International Business Magazine Awards
- Most Innovative Payment solution (Paysticker) Oman by Gazet International Magazine
- Best Corporate Bank of the year Oman by Gazet International Magazine

Year Ahead (2024)

Oman 2024 State Budget envisioned continuation of ongoing economic recovery. The 2024 Budget assumes oil price of US$ 60 per barrel with an average oil production of 1.03 million barrels per day. The top priorities of the 2024 Budget include achievement of fiscal sustainability, stimulating national economy, accelerating non-oil revenue, improving spending efficiency, attracting foreign investments, controlling deficit, lowering of public debt, stabilizing the inflation rate, sustaining employment creation, implementation of high-priority projects.

With expanded distribution network, new business segments, products and relentless focus on customer acquisition, the Bank is expected to continue to benefit from its strategic direction supported by the stable economic environment in Oman.

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Board of Directors and the Executive Management. I convey my gratitude to the shareholders, Sharia Supervisory Board of Maisarah Islamic Banking Services, Management and Staff for their relentless efforts and contributions during the year 2023.

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

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

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

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Independent auditors' report

To the Shareholders of Bank Dhofar SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank Dhofar SAOG ("the Bank"), which comprise the statement of financial position as at 31 December 2023, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants *International* Code of Ethics for Professional Accountants *(including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Key Audit Matters *(continued)*

Impairment of loans and advances and Islamic financing

See Note 7(f) and 32.1 (a) of the financial statements.

The key audit matter	How the matter was addressed in our audit
The Bank recognised allowances for credit losses in its financial statements using expected credit loss ("ECL") models. The Bank exercises significant judgment and makes a number of assumptions in developing its ECL models determined as a function of the probability of default ("PD"), loss given default ("LGD"), adjusted for the forward looking information, and exposure at default ("EAD") associated with the underlying exposures subject to ECL. Complex disclosure requirements apply regarding credit quality of the portfolio including disclosure of key judgments and material inputs used in estimation of expected credit losses. It is necessary to estimate ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weights applied to them. This is considered a key audit matter, as the estimation of ECL involves significant management judgement, use of complex models and assumptions and has a material impact on the financial statements of the Bank.	Our audit procedures in this area include the following, among others: • Evaluating the appropriateness of the methodology adopted based on the requirements of IFRS 9, and our business understanding. • Obtaining an understanding on the ECL accounting estimate by performing walkthrough on the process including, but not limited to, obtaining information about the Bank's control environment in relation to the estimate, obtaining an understanding of the process by which the estimate is developed, understanding the methods, assumptions and data used to develop the accounting estimate. Assessing the design, implementation, and testing the operating effectiveness of selected controls in relation to governance and data migration. • Involving our Financial Risk Management ("FRM") specialists, for a selection of models, to assess the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling and the application of expert credit judgment to determine the ECL. This included, where applicable, challenging key assumptions / judgments relating to significant increase in credit risk ("SICR"), definition of default, probability of default, use of macro-economic variables and probability weighted outcomes to check that the ECL amounts recorded are reflective of underlying credit quality and macroeconomic trends. • Testing the completeness and accuracy of the data used within the ECL calculation by sample testing over key data inputs used in estimating the ECL. • Involving our Information Technology ("IT") specialists to test the relevant general IT and application controls over key systems used for data extraction used in the ECL process.

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Key Audit Matters *(continued)*

Impairment of loans and advances and Islamic financing

See Note 7(f) and 32.1 (a) of the financial statements.

The key audit matter	How the matter was addressed in our audit
	• Re-performing key aspects of the Bank's SICR determinations for selected samples of loans, advances and Islamic financing to determine whether a SICR event was appropriately identified. • Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades, including staging, assessing the financial performance of the borrower, source of repayment and future cash flows of the borrower, and as necessary, challenging the appropriateness of the ECL calculation by involving FRM specialists to re-perform the calculation for a sample of borrowers. • Assessing the adequacy of the Bank's disclosures by reference to the requirements of the relevant accounting standards.

Other Matter

The financial statements of the Bank for the year ended 31 December 2022, were audited by another auditor who expressed an unmodified opinion on those financial statements on 2 March 2023.

Other Information

Management is responsible for the other information. The other information comprises the Board of Directors' Report, Management Discussion and Analysis Report, Corporate Governance Report, financial statements of Maisarah Islamic Banking Services, Basel II and III – Pillar III report and Basel II and III – Pillar III report of the Maisarah Islamic Banking Services, which we obtained prior to the date of this auditors' report, and the 2023 Annual Report, which is expected to be made available to us after that date.

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

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

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

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

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

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

Those Charged with Governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

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 Bank's internal control.

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Further, we report that financial statements of the Bank as at and for the year ended 31 December 2023, comply, in all material respects, with the:

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

7 March 2024
Kenneth Macfarlane

KPMG LLC

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BANK DHOFAR SAOG

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	**31-Dec-2023 RO'000**	31-Dec-2022 RO'000
Assets			
Cash and balances with Central Bank of Oman	*5*	**125,931**	176,617
Investment securities	*8*	**459,477**	469,422
Loans, advances, and financing to banks	*6*	**227,078**	148,353
Loans, advances, and financing to customers (conventional)	*7*	**3,099,314**	2,880,469
Islamic financing receivables	*7*	**666,270**	550,017
Other assets	*11*	**80,578**	67,180
Deferred tax assets	*24*	**6,209**	6,127
Property and equipment	*10*	**8,600**	6,578
Intangible assets	*9*	**12,340**	12,569
Total assets		**4,685,797**	4,317,332
Liabilities			
Due to banks	*12*	**505,916**	572,842
Deposits from customers (conventional)	*13*	**2,735,172**	2,416,687
Islamic customers deposits	*13*	**564,051**	475,132
Other liabilities	*14*	**130,455**	120,824
Tax liabilities	*24 (e)*	**15,509**	13,632
Employee benefit obligations	*14 (a)*	**1,740**	1,138
Total liabilities		**3,952,843**	3,600,255
Shareholders' equity			
Share capital	*15*	**299,635**	299,635
Share premium	*17*	**95,656**	95,656
Legal reserve	*18 (a)*	**71,831**	67,955
Special reserve	*18 (d)*	**16,988**	16,988
Special reserve –restructured loans	*18 (e)*	**1,281**	1,281
Special impairment reserve	*18 (f)*	**12,184**	12,184
Special revaluation reserve - investment	*18 (g)*	**(709)**	(709)
Investment revaluation reserve	*18(c)*	**(58)**	(3,506)
Retained earnings	*19*	**80,646**	72,093
Total equity attributable to the equity holders of the Bank		**577,454**	561,577
Perpetual Tier 1 Capital Securities	*16*	**155,500**	155,500
Total equity		**732,954**	717,077
Total liabilities and equity		**4,685,797**	4,317,332
Contingent liabilities and commitments	*28 (a)*	**675,502**	662,748
Net assets per share (Rial Omani)	*20*	**0.193**	0.187

The financial statements including notes and other explanatory information on pages 15 to 115 were approved and authorised for issue by the Board of Directors on 28 January 2024 and were signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	**31-Dec-2023 RO'000**	31-Dec-2022 RO'000
Interest income	*21*	**219,801**	184,807
Interest expense	*22*	**(129,048)**	(84,146)
Net interest income		**90,753**	100,661
Income from Islamic financing / Investments	*21*	**41,812**	36,462
Unrestricted investment account holders' share of profit and profit expense	*22*	**(21,744)**	(14,707)
Net income from Islamic financing and Investment activities		**20,068**	21,755
Fees and commission income	*29*	**30,441**	19,205
Fees and commission expense	*29*	**(5,749)**	(4,313)
Net fees and commission income		**24,692**	14,892
Other operating income	*22 (a)*	**8,570**	5,844
Operating income		**144,083**	143,152
Staff and administrative costs	*23*	**(62,144)**	(62,625)
Depreciation	*9&10*	**(6,504)**	(7,058)
Operating expenses		**(68,648)**	(69,683)
Net Impairment losses on financial assets	*7*	**(32,510)**	(34,343)
Recovery of bad debts written-off		**850**	1,078
Profit from operations after provision		**43,775**	40,204
Income tax expense	*24*	**(5,017)**	(6,031)
Profit for the period		**38,758**	34,173
Other comprehensive income:			
Items that will not be reclassified to Profit and Loss:			
Movement in fair value reserve - FVOCI equity instrument		**142**	(406)
Realised loss FVOCI equity instrument		**(455)**	-
Items that are or may be reclassified to profit or loss in subsequent periods:			
Movement in fair value reserve - FVOCI debt Instruments		**3,306**	377
Other comprehensive income / (loss) for the period		**2,993**	(29)
Total comprehensive income for the period		**41,751**	34,144
Earnings per share attributable to equity shareholders of the Bank (basic and diluted) (Rials Omani)	25	**0.009**	0.008

The notes on pages 15 to 115 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Special reserve RO'000	Special reserve restructured loan RO'000	Special impairment reserve RO'000	Special revaluation reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balances as at 1 January 2023		**299,635**	**95,656**	**67,955**	**16,988**	**1,281**	**12,184**	**(709)**	**-**	**(3,506)**	**72,093**	**561,577**	**155,500**	**717,077**
Profit for the period		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38,758**	**38,758**	**-**	**38,758**
Other comprehensive income for the period:														
Net changes of fair value reserve														
FVOCI equity instruments	*18 (c)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**142**	**(455)**	**(313)**	**-**	**(313)**
FVOCI debt instruments	*18 (c)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,306**	**-**	**3,306**	**-**	**3,306**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,448**	**38,303**	**41,751**	**-**	**41,751**
Transfer to legal reserve	*18 (a)*	**-**	**-**	**3,876**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,876)**	**-**	**-**	**-**
Transfer to Subordinated reserve	*18 (b)*								**-**		**-**			
Transfer to retained earnings	*18(d)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Perpetual Tier 1 capital securities:												**-**	**-**	**-**
Repayment of Tier 1 capital securities	*16*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(40,000)**	**(40,000)**
Issuance of Tier 1 capital securities	*16*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40,000**	**40,000**
Payment towards perpetual additional Tier 1 coupon		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(10,797)**	**(10,797)**	**-**	**(10,797)**
AT 1Issuance Cost		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(94)**	**(94)**		**(94)**
Dividend Paid	*35*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14,983)**	**(14,983)**	**-**	**(14,983)**
Balances as at 31 December 2023		**299,635**	**95,656**	**71,831**	**16,988**	**1,281**	**12,184**	**(709)**	**-**	**(58)**	**80,646**	**577,454**	**155,500**	**732,954**

The notes on pages 15 to 115 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Special reserve RO'000	Special reserve for restructured loan RO'000	Special impairment reserve – net of tax RO'000	Special revaluation reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balances as at 1 January 2022		299,635	95,656	64,538	16,988	1,281	12,184	(709)	28,000	(3,477)	28,923	543,019	155,500	698,519
Profit for the period		-	-	-	-				-	-	34,173	34,173	-	34,173
Other comprehensive income for the period:						-	-	-						
Net changes of fair value reserve						-	-	-						
FVOCI equity instruments		-	-	-	-				-	(406)	-	(406)	-	(406)
• FVOCI debt instruments	*18(c)*	-	-	-	-	-	-	-	-	377	-	377	-	377
•	*18(c)*					-	-	-						
Total comprehensive income for the period		-	-	-	-	-	-	-	-	(29)	34,173	34,144	-	34,144
						-	-	-						
Transfer to legal reserve	*18(a)*	-	-	3,417	-	-	-	-	-	-	(3,417)	-	-	-
Transfer to Subordinated reserve	*18(b)*					-	-	-	7,000		(7,000)			
Transfer to retained earnings	*18(d)*	-	-	-	-	-	-	-	(35,000)	-	35,000	-	-	-
Perpetual Tier 1 capital securities:												-	-	-
Repayment of Tier 1 capital securities	*16*	-	-	-	-	-	-	-	-	-	-	-	(115,500)	(115,500)
Issuance of Tier 1 capital securities	*16*	-	-	-	-				-	-	-	-	115,500	115,500
Payment towards perpetual additional Tier 1 coupon		-	-	-	-				-	-	(9,376)	(9,376)	-	(9,376)
AT 1Issuance Cost	*35*					-	-	-			(217)	(217)		(217)
Dividend Paid		-	-	-	-				-	-	(5,993)	(5,993)	-	(5,993)
Balances as at 31 December 2022		299,635	95,656	67,955	16,988	1,281	12,184	(709)	-	(3,506)	72,093	561,577	155,500	717,077

The notes on pages 15 to 115 are an integral part of these financial statement.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	**31-Dec-2023 RO'000**	31-Dec-2022 RO'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period before taxation		**43,775**	40,204
Adjustment for:			
Depreciation, amortisation and impairment	*9&10*	**6,504**	7,058
Net Impairment on financial asset and recovery of bad debts written-off	*7*	**33,270**	33,265
Dividend income	*22 (b)*	**(667)**	(265)
End of Service provision for the year		**351**	291
Revaluation loss		**(38)**	115
Gain on Sale of property and equipment		**-**	(95)
Interest expense on subordinated loans	*22*	**-**	1,905
Gain on sale of investments		**(39)**	(13)
Operating profit before operating assets and liabilities changes		**83,156**	82,465
Net increase/(decrease) in:			
Due to banks		**(66,926)**	110,492
Loans, advances, and financing to banks		**(38,739)**	31,129
Loans & advances and financing		**(366,545)**	(122,028)
Other assets		**(13,114)**	169,934
Customer deposits		**407,404**	(93,401)
Other liabilities		**8,145**	(122,720)
Cash generated from operations before tax and end of service benefits		**13,381**	55,871
Taxes paid	*24*	**(3,140)**	(4,527)
End of service benefits paid	*14 (a)*	**(126)**	(1,510)
Net cash generated from operating activities		**10,115**	49,834
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment and intangible assets		**(8,297)**	(7,036)
Dividends received from investment securities		**667**	265
Purchase of investments		**(66,576)**	(81,533)
Proceeds from sale/maturities of investments		**79,605**	67,948
Proceeds from sale of property and equipment		**-**	1,489
Net cash generated / (used in) investing activities		**5,399**	(18,867)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of subordinated loans		**-**	(35,000)
Dividend paid		**(14,983)**	(5,993)
Issuance of AT 1 securities (OMR)		**40,000**	115,500
Payment of AT 1 securities (USD)		**(40,000)**	(115,500)
Interest on Tier 1 perpetual bond		**(10,797)**	(9,376)
AT 1 issuance cost		**(94)**	(217)
Interest expense on subordinated loans		**-**	(1,905)
Net cash (used in) financing activities		**(25,874)**	(52,491)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(10,360)**	(21,524)
Cash and cash equivalents at beginning of the year		**275,679**	297,203
Cash and cash equivalents at end of the year		**265,319**	275,679
Cash and cash equivalent comprise of:			
Cash and balances with Central Bank of Oman		**125,931**	176,617
Capital deposit with Central Bank of Oman		**(500)**	(500)
Due from banks with a short term maturity of 3 months or less		**139,888**	99,562
		265,319	275,679

Interest received was RO 256.23 million (2022: RO 184.17 million) and interest paid was RO 141.42 million (2022: RO 82.99 million). These are part of the operating cash flows of the Bank.

There are no significant non-cash changes to be disclosed for 2023 and 2022.

The notes on pages 15 to 115 are an integral part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Dhofar SAOG (the "Bank") is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank's Islamic Banking Window, "Maisarah Islamic Banking services" has an allocated capital of RO 70 million (2022: RO 70 million) from the core paid up capital of the shareholders. The Bank has a primary listing of its ordinary shares on the Muscat Stock Exchange ("MSX"), and the Bank's Additional Tier I Perpetual Bonds are listed on the Muscat Stock Exchange ("MSX"). The Bank's principal place of business is its Head Office located at Central Business District ("CBD"), Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

The Bank also prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by the CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the CBO, the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of the CBO. The IBW's financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All balances and transactions between the Bank and the IBW are eliminated in these financial statements. The accounting policies used in the preparation of these financial statements are consistent with those audited annual financial statements for the year ended 31 December 2022 expect for those disclosed in Note 3.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

2 BASIS OF PREPARATION *(continued)*

2.5 Standards, amendments and interpretations to IFRS effective in 2023 and relevant for the Bank's operations:

The Bank has applied the following amendments for the first time for their annual reporting periods:

- IFRS 17 Insurance Contracts
- Disclosures of Accounting Policies – Amendments to IAS 1 and IFRS Practise Statement 2.
- Definition of Accounting Policies - Amendments to IAS 8.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12.
- International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12

The amendments listed above did not have any impact on the amounts recognised in prior and current periods and are not expected to significantly affect the future periods.

2.6 The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2023:

- Classification of Liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1).
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7).
- Lack of Exchangeability (Amendments to IAS 21).
- Lease Liability in Sale and Leaseback (Amendments to IAS 21).

The Bank has not early adopted these amendments listed above which are not expected to have any significant impact on the bank's financial statements of future periods.

3 MATERIAL ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements except for below.

The Bank has adopted Disclosure of Accounting policies (Amendment to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes in the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments requires the disclosure of "material", rather than "significant" accounting policies. The amendments also provide guidance on the application of materiality to disclose the accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.1 Foreign currency transactions

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

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

3.2 Financial assets and liabilities

3.2.1 Recognition and initial measurement

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

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

3.2.2 Classification

(a) Financial assets

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

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

Financial assets measured at amortised cost

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

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

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.2 Classification *(continued)*

Financial assets measured at fair value through other comprehensive income

i) Debt Instruments

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

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

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

ii) Equity Instruments

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

Financial assets measured at fair value through profit or loss

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

Business model assessment

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

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.

- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.

- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.2 Classification *(continued)*

(a) Financial assets *(continued)*

Business model assessment *(continued)*

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

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

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

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

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

Financial guarantee contracts and loan commitments:

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

Loans & advances and financing receivables

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

(b) Financial liabilities

Financial liabilities are classified as subsequently measured at Amortised Cost, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.3 De-recognition

Financial assets

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

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

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

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. 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 new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in statement of comprehensive income.

3.2.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.4 Modifications of financial assets and financial liabilities *(continued)*

Financial liabilities

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

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

3.2.5 Offsetting

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

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

3.2.6 Amortised cost measurement

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

3.2.7 Fair value measurement

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.7 Fair value measurement *(continued)*

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

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

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

3.2.8 Designation at fair value through profit or loss

Financial assets

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

Financial liabilities

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

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

3.3 Allowance for expected credit losses

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

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

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

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

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

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

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

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

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

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

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

Details of these statistical parameters/inputs are as follows:

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

- EAD – The exposure at default computed is the expected amount owed to the bank, expressed as an amount, at the time the client defaults, or is expected to default. The exposure can be distinguished between those amounts forming part of (i) revolving (ii) non-revolving and (iii) off-balance sheet exposures to the bank, as special considerations have been taken in treating each case. For all non-revolving exposures, the amount outstanding as on reporting date has been treated as EAD. For all revolving exposure, EAD shall be the sum of the amount outstanding and likely amount that will be utilised by the borrower from the unavailed limit before the default. The off-balance sheet items are converted into credit exposure equivalent through credit conversion factor (or CCF) and accordingly, EAD is estimated.

- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The Bank has adopted different approaches for estimation of LGD depending on the portfolio. The Bank has used internal data reflecting Bank’s own loss experience for development of model, however wherever the Bank lacked internal loss experience, external loss benchmarks are adopted.

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

(a) Measurement of ECL

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

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

However, for unfunded exposures, ECL is measured as follows:

- undrawn loan commitments: a credit loss is the present value of the difference between (a) the contractual cash flows that are due to the Bank if the holder of the loan commitment draws down the loan; and (b) the cash flows that the Bank expects to receive if the loan is drawn down; and

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

(b) Restructured financial assets

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

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

(c) Credit-impaired financial assets

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

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

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

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

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of credit worthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

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

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

(d) Forward-looking information

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

(e) Macroeconomic factors

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

(f) Assessment of significant increase in credit risk

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

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

(g) Definition of default

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

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

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

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

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

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

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

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

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

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

(i) Write-off

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

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

3.4 Cash and cash equivalents

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.5 Due from banks

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

3.6 Property and equipment

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

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

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

	Years
Buildings	7 – 25
Furniture and fixtures	3 – 7
Motor vehicles	3 – 5
Computer equipment	4

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

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

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

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

3.7 Collateral pending sale

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

3.8 Intangible assets

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.9 Deposits

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

3.10 Income tax

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

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

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

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

3.11 Fiduciary assets

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

3.12 Acceptances

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

3.13 Sale and repurchase agreements

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

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

3.14 Derivative financial instruments and hedging activities

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

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.14 Derivative financial instruments and hedging activities *(continued)*

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

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

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

In relation to cash flow hedges, the gain or loss on hedging instruments is recognised initially in other comprehensive income to the extent that the hedge is effective and is transferred to the statement of comprehensive income in the period in which the hedged transaction impacts the comprehensive income . If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to statement of comprehensive income.
The Bank does not have any derivatives designated as hedging instruments.

3.15 Leases

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

3.16 Employee benefits

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.17 Financial guarantees contracts

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

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

3.18 Borrowings

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

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

3.19 Dividend on ordinary shares

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

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

3.20 Directors' remuneration

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

3.21 Revenue and expense recognition

I. Interest income and expense

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

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

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

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.21 Revenue and expense recognition *(continued)*

I. Interest income and expense *(continued)*

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

(i) Interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and
(ii) Interest on debt investment securities on an effective interest rate basis.

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

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

II. Fees and commission income

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

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

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

Transaction services

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

The Bank recognises revenue on completion of service or proportionate completion basis or at a point in time on satisfaction of performance obligation as per the terms of contract.

Trade services

The services cover issuance of letter of credit or guarantee, negotiations and other trade transactions.
Trade services fees are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.

Income is recognised on service completion basis or time proportionate basis over the period of contract.

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.21 Revenue and expense recognition *(continued)*

II. Fees and commission income (continued)

Syndication and other loan related services

The services include processing for credit, setting up credit limits, documentation, security and agency services and prepayment and closure of credit facilities. Syndication and other loan related services charges are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.

The Bank recognises revenue on completion of service basis or on time proportion basis.

Advisory and asset management services

Advisory services include advising for fund raising (rights issue, IPOs, bond issues etc). Advisory fees are charged to the customer's account on milestone completion basis or over the period of contract in line with the terms and conditions of contract.

3.22 Dividends

Dividend income is recognised in the statement of comprehensive income in 'Other income', when the Bank's right to receive income is established.

3.23 Provisions

A provision is recognised if, as a result of past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

3.24 Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The Bank currently operates only in the Sultanate of Oman. The Bank's segments are corporate, retail banking, Treasury and Investment and Islamic Banking.

3.25 Earnings per share

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

3.26 Perpetual Tier 1 capital securities

Perpetual Tier 1 Capital Securities of the Bank are recognised under equity and the corresponding distribution on those instruments are accounted as a debit to retained earnings. The Tier 1 securities constitute direct, unconditional, subordinated and unsecured instruments issued by the Bank that are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 securities do not have a fixed redemption or final maturity date and is redeemable by the Bank at its sole discretion on the first call date or thereafter on any interest payment date.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2022.

4.1 Allowance for expected credit losses of Loans, Advances and financing to customers and Islamic financing receivables

The Bank uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

The following are key estimations that have been used in the process of applying the Bank's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

In addition to these, the Bank used supportable forward-looking information for measurement of ECL. The forward-looking assumptions that correlate with ECL level and their assigned weights and sensitivity to assumptions are disclosed in note 32.

4.2 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. The Bank establishes provisions, based on reasonable estimates, for probable consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the Bank and the relevant tax authority.

Refer to note 24 for disclosures related to income taxes.

4.3 Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in de-recognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit impaired on initial recognition. The de-recognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognized nor reclassified out of the credit-impaired stage.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

4.4 Classification of the Equity Tier 1 instrument under IAS 32

The Bank has issued Perpetual Tier 1 Securities listed on the Muscat Stock Exchange (2021: Euronext Dublin and Muscat Stock Exchange), which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

- no fixed date of maturity.
- payment of interest and/or capital is solely at the discretion of the Bank
- the instruments are deeply subordinated and rank just above the ordinary shareholders
- these securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of the Central Bank of Oman.

The determination of equity classification of these instruments requires significant judgement as certain clauses, particularly the "Events of Default", require interpretation. The Directors, after factoring in the clauses relating to the write-down, non-payment and subordination in the instrument offering document consider that the Bank will not reach the point of insolvency before a write-down is affected due to a non-viability event. Accordingly, such clauses were assessed by the Directors as not being substantive for the purpose of determining the debt vs equity classification. The Directors have considered appropriate independent legal advice in forming their judgement around this matter.

4.5 Determination of lease term under IFRS 16

In determining the lease term, the Bank considers all facts and circumstances. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Bank considers the nature and enforceability of extension clause in the lease agreement, the value of leasehold improvements, penalties on termination, costs and business disruption required to replace the leased premises as factors to determine the lease term. Lease agreements for premises occupied by the Bank may contain an extension option, where the Bank has not considered extension options after analysing the above factors.

Lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Bank. During the financial year, the Bank has not revised its assessment of lease term as no significant events or changes occurred.

5. Cash and balances with the Central Bank of Oman

	2023 **RO'000**	2022 RO'000
Cash in hand	**30,278**	33,925
Balances with the Central Bank of Oman	**64,837**	68,050
Placements with Central Bank of Oman	**30,816**	69,326
Cash held by a custodian	**-**	5,316
	125,931	176,617

Balances with CBO includes capital deposit of RO 0.5 million (2022: RO 0.5 million). This is not available for day-to-day operations of the Bank and cannot be withdrawn without the Central Bank of Oman's approval. During the year, the average minimum balance to be kept with Central Banks as statutory reserves was RO 90.95 million (2022: RO 86.72 million).

6. Loans, advances and financing to banks (at amortised cost)

	2023 RO'000	2022 RO'000
Placements with other banks	**185,404**	101,333
Current clearing accounts	**42,118**	47,124
	227,522	148,457
Less: impairment allowance	**(444)**	(104)
	227,078	148,353

Movement of the allowance for expected credit losses is analysed below:

	2023 RO'000	2022 RO'000
Opening balance as on 1 January	**104**	1,150
Charge / (Write Back) for the year	**340**	(1,046)
Closing balance as on 31 December	**444**	104

7. Loans, advances and financing to customers (Conventional and Islamic)

(a) Conventional Banking

	2023 RO'000	2022 RO'000
Loans	**2,946,503**	2,820,805
Overdraft	**139,050**	123,550
Loans against trust receipts	**123,088**	97,069
Bills discounted	**64,800**	31,063
Advances against credit cards	**10,758**	8,669
Gross Loans, advances and financing to customers	**3,284,199**	3,081,156
Less: Impairment allowance including reserved interest	**(184,885)**	(200,687)
	3,099,314	2,880,469

(b) Islamic Banking Window Financing

	2023 RO'000	2022 RO'000
Housing finance	**205,682**	161,971
Corporate finance	**459,379**	388,808
Consumer finance	**20,535**	14,717
	685,596	565,496
Less: Impairment allowance	**(19,326)**	(15,479)
	666,270	550,017

Allowance for expected credit losses includes the amount of interest reserve and profit reserve amounting to RO 33.33 million and RO 1.70 million respectively (2022: RO 39.33 million and RO 1.04 million).

7. Loans, advances and financing to customers (*continued*)

(c) The movement in the allowance for expected credit losses is analysed below:

	2023	2022
	RO'000	RO'000
i. Allowance for loan for expected credit losses (conventional and Islamic)		
1 January	**175,801**	137,481
Reclassification of ECL related to accrued interest	**1,252**	343
Allowance made during the year	**50,786**	50,092
Released to the profit or loss during the year	**(19,910)**	(11,249)
Written off during the year	**(38,741)**	(866)
Balance at the end of the year *	**169,188**	175,801
ii. Reserved interest		
1 January	**40,366**	30,117
Reserved during the year	**21,333**	13,589
Recoveries to profit or loss during the year	**(11,758)**	(2,560)
Written-off during the year	**(14,918)**	(780)
Balance at the end of the year	**35,023**	40,366
Total impairment allowance	**204,211**	216,167

Note*: This balance includes stage 3 expected credit losses on unfunded exposure.

The reserve interest disclosed above is the amount of interest accrued on impaired loans which is not recognised in the statement of comprehensive income as per CBO norms. As of 31 December 2023, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 214.01 million (2022: RO 214.08 million). Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

Proposals for waivers / write-offs are not formula driven and are decided on a case by case basis after weighing all pros and cons. The rationale is invariably documented. In all cases, the Bank aims to recover the maximum value through enforcement of collaterals / guarantees of guarantors. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. In 2023, the Bank has written off RO 53.60 million (2022- RO 1.65 million) of provisions which includes RO 38.74 million (2022 - RO 0.87 million) of principal amount and RO 14.92 million (2022 – RO 0.78 million) of reserved interest as technical write off. As of 31 December 2023, the receivables amount written off still subject to enforcement activity amount to RO 53.66 million (2022: RO 79.31 million).

In accordance with CBO requirements, where the aggregate provision on portfolio and specific basis computed as per CBO norms is higher than the allowance for expected credit losses computed under IFRS 9, the difference, net of the impact of taxation, is transferred to an allowance for expected credit losses reserve as an appropriation from the retained earnings.

7. Loans, advances and financing to customers (*continued*)

(c) The movement in the allowance for expected credit losses is analysed below: (*continued*)

iii. Comparison of provision held as per IFRS 9 and required as per CBO norms

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

In accordance with CBO circular BM 1149 Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant CBO norms, including those on restructuring of loans accounts for regulatory reporting purposes.

At 31 December 2023

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	2,916,274	36,897	12,985	23,912	2,879,377	2,903,289	-	-
Standard	Stage 2	502,559	5,495	19,492	(13,997)	497,064	483,067	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		3,418,833	42,392	32,477	9,915	3,376,441	3,386,356	-	-
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	336,949	3,827	36,550	(32,723)	331,857	300,399	-	1,265
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		336,949	3,827	36,550	(32,723)	331,857	300,399	-	1,265
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	27,849	6,830	9,373	(2,543)	20,107	18,476	-	912
Subtotal		27,849	6,830	9,373	(2,543)	20,107	18,476	-	912
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	7,960	3,300	2,775	525	4,191	5,185	-	469
Subtotal		7,960	3,300	2,775	525	4,191	5,185	-	469
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	178,204	127,015	86,572	40,443	18,812	91,632	-	32,377
Subtotal		178,204	127,015	86,572	40,443	18,812	91,632	-	32,377
Total loans and advances		3,969,795	183,364	167,747	15,617	3,751,408	3,802,048	-	35,023
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,915,846	179	3,383	(3,204)	1,915,667	1,912,463	-	-
	Stage 2	274,002	-	5,210	(5,210)	274,002	268,792	-	-
	Stage 3	3,282	-	1,441	(1,441)	3,282	1,841	-	-
Subtotal		2,193,130	179	10,034	(9,855)	2,192,951	2,183,096	-	-
	Stage 1	4,832,120	37,076	16,368	20,708	4,795,044	4,815,752	-	-
Total (31 December 2023)	Stage 2	1,113,510	9,322	61,252	(51,930)	1,102,923	1,052,258	-	1,265
	Stage 3	217,295	137,145	100,161	36,984	46,392	117,134	-	33,758
	Total	6,162,925	183,543	177,781	5,762	5,944,359	5,985,144	-	35,023

* Net of provision and reserve interest as per CBO norms

7. Loans, advances and financing to customers *(continued)*

(c) The movement in the allowance for expected credit losses is analysed below *(continued)***:**

iii. Comparison of provision held as per IFRS 9 and required as per CBO norms *(continued)*

At 31 December 2022

RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	2,642,217	37,850	12,483	25,367	2,604,367	2,629,734	-	-
Standard	Stage 2	417,967	5,166	32,121	(26,955)	412,801	385,846	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		3,060,184	43,016	44,604	(1,588)	3,017,168	3,015,580	-	-
	Stage 1	14,812	151	228	(77)	14,661	14,584	-	-
Special Mention	Stage 2	357,577	4,951	30,042	(25,091)	352,626	327,535	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		372,389	5,102	30,270	(25,168)	367,287	342,119	-	-
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	8,552	2,111	3,044	(933)	6,193	5,508	-	248
Subtotal		8,552	2,111	3,044	(933)	6,193	5,508	-	248
	Stage 1	-	-	-	-	-	-	-	
Doubtful	Stage 2	-	-	-	-	-	-	-	
	Stage 3	17,694	5,454	6,444	(990)	11,210	11,250	-	1,030
Subtotal		17,694	5,454	6,444	(990)	11,210	11,250	-	1,030
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	187,833	130,050	91,439	38,611	18,695	96,394	-	39,088
Subtotal		187,833	130,050	91,439	38,611	18,695	96,394	-	39,088
Total loans and advances		3,646,652	185,733	175,801	9,932	3,420,553	3,470,851	-	40,366
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,755,388	179	3,013	(2,834)	1,755,209	1,752,375	-	-
	Stage 2	305,182	-	3,945	(3,945)	305,182	301,237	-	-
	Stage 3	3,056	-	1,252	(1,252)	3,056	1,804	-	-
Subtotal		2,063,626	179	8,210	(8,031)	2,063,447	2,055,416	-	-
	Stage 1	4,412,417	38,180	15,724	22,456	4,374,237	4,396,693	-	-
Total (31 December 2022)	Stage 2	1,080,726	10,117	66,108	(55,991)	1,070,609	1,014,618	-	-
	Stage 3	217,135	137,615	102,179	35,436	39,154	114,956	-	40,366
	Total	5,710,278	185,912	184,011	1,901	5,484,000	5,526,267	-	40,366

* Net of provision and reserve interest as per CBO norms.

(d) Restructured Loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the Directors, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

7. Loans, advances and financing to customers *(continued)*

(d) Restructured Loans *(continued)*

At 31 December 2023

RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	**Stage 1**	**92,368**	**927**	**1,585**	**(658)**	**91,441**	**90,783**	**-**	**-**
	Stage 2	**378,069**	**3,732**	**42,405**	**(38,673)**	**373,072**	**335,664**	**-**	**1,265**
Subtotal		**470,437**	**4,659**	**43,990**	**(39,331)**	**464,513**	**426,447**	**-**	**1,265**
Classified as non-performing	**Stage 3**	**19,003**	**6,955**	**7,700**	**(745)**	**10,640**	**11,303**	**-**	**1,408**
Sub total		**19,003**	**6,955**	**7,700**	**(745)**	**10,640**	**11,303**	**-**	**1,408**
Total (31 December 2023)	**Stage 1**	**92,368**	**927**	**1,585**	**(658)**	**91,441**	**90,783**	**-**	**-**
	Stage 2	**378,069**	**3,732**	**42,405**	**(38,673)**	**373,072**	**335,664**	**-**	**1,265**
	Stage 3	**19,003**	**6,955**	**7,700**	**(745)**	**10,640**	**11,303**	**-**	**1,408**
	Total	**489,440**	**11,614**	**51,690**	**(40,076)**	**475,153**	**437,750**	**-**	**2,673**

* Net of provision and reserve interest as per CBO norms

At 31 December 2022

RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	128,096	1,288	3,248	(1,959)	126,808	124,848	-	-
	Stage 2	434,264	2,450	41,473	(39,022)	431,814	392,792	-	-
Subtotal		562,360	3,738	44,720	(40,982)	558,622	517,640	-	-
Classified as non-performing	Stage 3	7,431	3,451	3,476	(25)	2,723	3,955	-	1,257
Sub total		7,431	3,451	3,476	(25)	2,723	3,955	-	1,257
Total (31 December 2022)	Stage 1	128,096	1,288	3,248	(1,959)	126,808	124,848	-	-
	Stage 2	434,264	2,450	41,473	(39,022)	431,814	392,792	-	-
	Stage 3	7,431	3,451	3,476	(25)	2,723	3,955	-	1,257
	Total	569,791	7,189	48,196	(41,007)	561,345	521,595	-	1,257

* Net of provision and reserve interest as per CBO norms

7. Loans, advances and financing to customers *(continued)*

(e) Comparison of allowance for expected credit losses charges as per IFRS 9 and as per CBO norms

i. Allowance for expected credit losses charge and provisions held

At 31 December 2023

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	**183,543**	**178,541**	**5,762**
Gross NPL ratio	**5.39%**	**5.39%**	**0%**
Net NPL ratio	**1.09%**	**2.02%**	**(0.93)%**

Gross NPL (Non-performing Loans) are 5.39% and Net NPL is 2.02% based on funded non-performing exposure over funded exposure.
Note 1: Excluding Interest Reserve of RO 33.76 million.

At 31 December 2022

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	185,912	184,011	1,901
Gross NPL ratio	5.87%	5.87%	0%
Net NPL ratio	0.99%	2%	(1.01)%

Note 1: Excluding Interest Reserve of RO 40.37 million.

Gross NPL (Non-performing Loans) are 5.87% and Net NPL is 2% based on funded non-performing exposure over funded exposure.

In accordance with Central Bank of Oman (CBO) circular BM 1149, the mandatory regulatory impairment reserve is created when the provisions and reserve interest required as per CBO norms exceeds the allowance for expected credit losses as per IFRS. The allowance for expected credit losses reserve is a yearly appropriation from the net profit after tax. The regulatory impairment reserve will not be available for payment of dividend or for inclusion in regulatory capital. Any subsequent utilisation of the impairment reserve would require prior approval of the CBO.

However, as per circular BSD/CB/&FLCs/2021/002 dated 18 March 2021, CBO has suspended two-track approach / parallel run for the computation of additional provisions as per CBO norms for the financial year 2022 to 2023. During the period no reserve has been transferred to 'Impairment Reserve' as there is no additional provision required as per CBO guidelines.

ii. Special impairment reserve

During 2023, no amount (2022 – Nil) of special reserves was transferred from retained earnings to the special impairment reserve because CBO has suspended the two-track approach for the financial year 2022 and 2023.

7. Loans, advances and financing to customers *(continued)*

(e) Comparison of allowance for expected credit losses charges as per IFRS 9 and as per CBO norms

iii. Special impairment reserve *(continued)*

Movement of provisions under IFRS 9 and CBO norms for the year ended 31 December 2023

	As per CBO Norms RO'000	**As per IFRS 9 RO'000**	**Difference RO'000**
Opening Balance – 1 January 2023	**185,912**	**184,011**	**1,901**
Allowance for expected credit losses charge for the year	**56,282**	**52,421**	**3,861**
Less: write-back during the year	**(19,910)**	**(19,910)**	**-**
Less: written off during the year	**(38,741)**	**(38,741)**	**-**
Closing balance – 31 December 2023	**183,543**	**177,781**	**5,762**
Total after tax (Net)			**4,898**

Movement of IFRS 9 Special Impairment Reserve for the year ended 31 December 2023

	RO'000
Opening Balance – 1 January 2023	**12,184**
Net charge for the year after tax	-
Closing Balance as at 31 December 2023	**12,184**

RO Nil would have been the impact on the net profits if additional provisions as per the Central Bank of Oman requirements had been made.

Movement of provisions under IFRS 9 and CBO norms for the year ended 31 December 2022

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Opening Balance – 1 January 2022	161,176	150,533	10,643
Allowance for expected credit losses charge for the year	36,851	45,593	(8,742)
Less: write-back during the year	(11,249)	(11,249)	-
Less: written off during the year	(866)	(866)	-
Closing balance – 31 December 2022	185,912	184,011	1,901
Total after tax (Net)			1,616

Movement of IFRS 9 Special Impairment Reserve for the year ended 31 December 2022

	RO'000
Opening Balance – 1 January 2022	12,184
Net charge for the year after tax	-
Closing Balance as at 31 December 2022	12,184

RO Nil would have been the impact on the net profits if additional provisions as per the Central Bank of Oman requirements had been made.

7. Loans, advances and financing to customers *(continued)*

(f) Stage wise exposure, allowance for expected credit losses and net exposures

The following table discloses the stage-wise gross exposure, allowance for expected credit losses and net exposure of only those financial assets that are tested for allowance for expected credit losses under IFRS 9 as at 31 December 2023:

				RO'000
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Central Bank balances	**95,653**			**95,653**
Cash held by a custodian	**-**	**-**	**-**	**-**
Due from Banks	**227,522**	**-**	**-**	**227,522**
Sovereign	**384,142**	**-**	**-**	**384,142**
Investment Securities at amortized cost	**9,989**	**-**	**-**	**9,989**
Investment Securities at FVOCI	**19,474**	**-**	**-**	**19,474**
Loans and advances	**2,916,274**	**839,508**	**214,013**	**3,969,795**
Acceptance	**52,084**	**7,026**	**-**	**59,110**
Total funded gross exposure	**3,705,138**	**846,534**	**214,013**	**4,765,685**
Letters of credit/guarantee	**562,259**	**109,961**	**3,282**	**675,502**
Loan commitment / unutilized limits	**564,723**	**157,015**	**-**	**721,738**
Total non-funded gross exposure	**1,126,982**	**266,976**	**3,282**	**1,397,240**
Total gross exposure	**4,832,120**	**1,113,510**	**217,295**	**6,162,925**
Allowance for expected credit losses				
Central Bank balances	**-**	**-**	**-**	**-**
Cash held by a custodian	**-**	**-**	**-**	**-**
Due from Banks	**444**	**-**	**-**	**444**
Sovereign	**-**	**-**	**-**	**-**
Investment Securities at amortized cost	**-**	**-**	**-**	**-**
Investment Securities at FVOCI	**45**	**-**	**-**	**45**
Loans and advances	**12,985**	**56,042**	**98,720**	**167,747**
Acceptance	**23**	**12**	**-**	**35**
Total funded impairment	**13,497**	**56,054**	**98,720**	**168,271**
Letters of credit/guarantee	**1,422**	**4,360**	**1,441**	**7,223**
Loan commitment/unutilized limits	**1,449**	**838**	**-**	**2,287**
Total non-funded impairment	**2,871**	**5,198**	**1,441**	**9,510**
Total impairment	**16,368**	**61,252**	**100,161**	**177,781**
Net exposure				
Central Bank balances	**95,653**	**-**	**-**	**95,653**
Cash held by a custodian	**-**	**-**	**-**	**-**
Due from Banks	**227,078**	**-**	**-**	**227,078**
Sovereign	**384,142**	**-**	**-**	**384,142**
Investment Securities at amortized Cost	**9,989**	**-**	**-**	**9,989**
Investment Securities at FVOCI	**19,429**	**-**	**-**	**19,429**
Loans and advances	**2,903,289**	**783,466**	**115,293**	**3,802,048**
Acceptance	**52,061**	**7,014**	**-**	**59,075**
Total funded net exposure	**3,691,641**	**790,480**	**115,293**	**4,597,414**
Letter of credit/guarantee	**560,837**	**105,601**	**1,841**	**668,279**
Loan commitment/unutilized limits	**563,274**	**156,177**	**-**	**719,451**
Total net non-funded exposure	**1,124,111**	**261,778**	**1,841**	**1,387,730**
Total net exposure	**4,815,752**	**1,052,258**	**117,134**	**5,985,144**

Gross exposure of loans and advances of RO 214.01 million under stage 3 includes reserved interest of RO 33.76 million.

7. Loans, advances and financing to customers *(continued)*

(f) Stage wise exposure, allowance for expected credit losses and net exposures *(continued)*

The following table discloses the stage-wise gross exposure, allowance for expected credit losses and net exposure of only those financial assets that are tested for allowance for expected credit losses under IFRS 9 as at 31 December 2022:

				RO'000
Gross exposure	Stage 1	Stage 2	Stage 3	Total
Central Bank balances	137,376	-	-	137,376
Cash held by a custodian	5,316	-	-	5,316
Due from Banks	148,457	-	-	148,457
Sovereign	398,445	-	-	398,445
Investment Securities at amortized cost	9,647	-	-	9,647
Investment Securities at FVOCI	46,702	-	-	46,702
Loans and advances	2,657,029	775,544	214,079	3,646,652
Acceptance	34,225	5,771	-	39,996
Total funded gross exposure	3,437,197	781,315	214,079	4,432,591
Letters of credit/guarantee	559,104	100,588	3,056	662,748
Loan commitment / unutilized limits	416,116	198,823	-	614,939
Total non-funded gross exposure	975,220	299,411	3,056	1,277,687
Total gross exposure	4,412,417	1,080,726	217,135	5,710,278
Allowance for expected credit losses				
Central Bank balances	-	-	-	-
Cash held by a custodian	-	-	-	-
Due from Banks	104	-	-	104
Sovereign	-	-	-	-
Investment Securities at amortized cost	-	-	-	-
Investment Securities at FVOCI	64	-	-	64
Loans and advances	12,711	62,163	100,927	175,801
Acceptance	13	6	-	19
Total funded impairment	12,892	62,169	100,927	175,988
Letters of credit/guarantee	1,670	3,266	1,252	6,188
Loan commitment/unutilized limits	1,162	673	-	1,835
Total non-funded impairment	2,832	3,939	1,252	8,023
Total impairment	15,724	66,108	102,179	184,011
Net exposure				
Central Bank balances	137,376	-	-	137,376
Cash held by a custodian	5,316	-	-	5,316
Due from Banks	148,353	-	-	148,353
Sovereign	398,445	-	-	398,445
Investment Securities at amortized Cost	9,647	-	-	9,647
Investment Securities at FVOCI	46,638	-	-	46,638
Loans and advances	2,644,318	713,381	113,152	3,470,851
Acceptance	34,212	5,765	-	39,977
Total funded net exposure	3,424,305	719,146	113,152	4,256,603
Letter of credit/guarantee	557,434	97,322	1,804	656,560
Loan commitment/unutilized limits	414,954	198,150	-	613,104
Total net non-funded exposure	972,388	295,472	1,804	1,269,664
Total net exposure	4,396,693	1,014,618	114,956	5,526,267

Gross exposure of loans and advances of RO 214.08 million under stage 3 includes reserved interest of RO 40.37 million.

7. Loans, advances and financing to customers *(continued)*

(f) Stage wise exposure, allowance for expected credit losses and net exposures *(continued)*

	Stage 1	Stage 2	Stage 3	RO'000 Total
Opening Balance – as of 1 January 2023				
Due from banks	104	-	-	104
Loans and advances to customers	12,711	62,163	100,927	175,801
Investment securities at FVOCI (Debt)	64	-	-	64
Loan commitments and financial guarantees	1,670	3,266	1,252	6,188
Acceptances	13	6	-	19
Unutilised	1,162	673	-	1,835
Total	15,724	66,108	102,179	184,011
Net transfer between stages				
Loans and advances to customers	(1,819)	(15,657)	17,476	-
Loan commitments and financial guarantees	(11)	11	-	-
Unutilised	(55)	55	-	-
Total	(1,885)	(15,591)	17,476	-
Charge for the Year (net of recoveries)				
Due from banks	340	-	-	340
Loans and advances to customers	2,094	9,536	19,057	30,687
Investment securities at FVOCI (Debt)	(19)	-	-	(19)
Loan commitments and financial guarantees	(237)	1,083	189	1,035
Acceptances	10	6	-	16
Unutilised	341	110	-	451
Total net of recovery	2,529	10,735	19,246	32,510
Written-off			(38,741)	(38,741)
Closing Balance – as at 31 December 2023				
- Due from banks	444	-	-	444
- Loans and advances to customers	12,986	56,042	98,719	167,747
- Investment securities at FVOCI (Debt)	45	-	-	45
- Loan commitments and financial guarantees	1,422	4,360	1,441	7,223
- Acceptances	23	12	-	35
- Unutilised	1,448	838	1	2,287
Total expected credit loss	16,368	61,252	100,161	177,781

The most significant changes in the ECL of the Bank arise from the loans and advances to customers. The changes in the ECL on other financial assets at amortised cost and unfunded exposures including loan commitments are not significant.

As to loan and advances to customers, the ECL changes primarily relate to the corporate portfolio and were due to the downward movement of exposures to non-performing and satisfactory grades. This was partially offset due to favourable outcomes from positive changes in the macro-economic variables. The subsequent remeasurement of these exposures post stage transfer is reflected in the charge for the year.

7. Loans, advances and financing to customers *(continued)*

(f) Stage wise exposure, allowance for expected credit losses and net exposures *(continued)*

	Stage 1	Stage 2	Stage 3	RO'000 Total
Opening Balance – as of 1 January 2022				
Due from banks	1,150	-	-	1,150
Loans and advances to customers	20,015	34,931	82,535	137,481
Investment securities at FVOCI (Debt)	247	-	-	247
Loan commitments and financial guarantees	3,534	4,054	-	7,588
Acceptances	899	16	-	915
Unutilised	1,670	1,140	-	2,810
Interest Accrued	131	212	-	343
Total	27,646	40,353	82,535	150,534
Net transfer between stages				
Due from banks	(204)	204	-	-
Loans and advances to customers	1,426	(21,587)	20,161	-
Loan commitments and financial guarantees	(13)	13	-	-
Unutilised	29	(29)	-	-
Total	1,238	(21,399)	20,161	-
Charge for the Year (net of recoveries)				
Due from banks	(842)	(204)	-	(1,046)
Loans and advances to customers	(8,861)	48,607	(903)	38,843
Investment securities at FVOCI (Debt)	(183)	-	-	(183)
Loan commitments and financial guarantees	(1,851)	(801)	1,252	(1,400)
Acceptances	(886)	(10)	-	(896)
Unutilised	(537)	(438)	-	(975)
Total net of recovery	(13,160)	47,154	349	34,343
Written-off			(866)	(866)
Closing Balance – as at 31 December 2022				
- Due from banks	104	-	-	104
- Loans and advances to customers	12,711	62,163	100,927	175,801
- Investment securities at FVOCI (Debt)	64	-	-	64
- Loan commitments and financial guarantees	1,670	3,266	1,252	6,188
- Acceptances	13	6	-	19
- Unutilised	1,162	673	-	1,835
Total expected credit loss	15,724	66,108	102,179	184,011

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL

2023:

Due from Bank
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2023	**104**	**-**	**-**	**104**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movements during the year	**340**	-	-	**340**
Net Movement	**340**	**-**	**-**	**340**
Closing balance – 31 December 2023	**444**	**-**	**-**	**444**

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2023	**148,457**	**-**	**-**	**148,457**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movements during the year	**79,065**	-	-	**79,065**
Net Movement	**79,065**	**-**	**-**	**79,065**
Closing balance – 31 December 2023	**227,522**	**-**	**-**	**227,552**

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Loans and Advances
ECL Movement

	Stage 1	**Stage 2**	**Stage 3**	***RO'000*** **Total**
Opening Balance – 1 January 2023	**12,711**	**62,163**	**100,927**	**175,801**
Transfer between stages				
From Stage 1 to Stage 2	**(6,295)**	**1,523**	**(4)**	**(4,776)**
From Stage 2 to Stage 1	**4,548**	**(4,548)**	**-**	**-**
From Stage 1 and Stage 2 to Stage 3	**(72)**	**(12,632)**	**17,480**	**4,776**
Net Changes in Stage	**(1,819)**	**(15,657)**	**17,476**	**-**
Net Movement during the year	**2,094**	**9,536**	**19,057**	**30,687**
Net Movement	**2,094**	**9,536**	**19,057**	**30,687**
Write off			**(38,741)**	**(38,741)**
Closing balance – 31 December 2023	**12,986**	**56,042**	**98,719**	**167,747**

Exposure Movement

	Stage 1	**Stage 2**	**Stage 3**	***RO'000*** **Total**
Opening Balance – 1 January 2023	**2,657,029**	**775,544**	**214,079**	**3,646,652**
Transfer between stages				
From Stage 1 to Stage 2	**(52,770)**	**52,782**	**(12)**	**-**
From Stage 2 to Stage 1	**36,358**	**(36,358)**	**-**	**-**
From Stage 1 and Stage 2 to Stage 3	**(4,249)**	**(6,273)**	**10,522**	**-**
Net Changes in Stage	**(20,661)**	**10,151**	**10,510**	**-**
Net Movement during the year	**279,906**	**53,813**	**(10,576)**	**323,143**
Net Movement	**279,906**	**53,813**	**(10,576)**	**323,143**
Closing balance – 31 December 2023	**2,916,274**	**839,508**	**214,013**	**3,969,795**

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Investment securities
ECL Movement

	Stage 1	**Stage 2**	**Stage 3**	***RO'000*** **Total**
Opening Balance – 1 January 2023	**64**	**-**	**-**	**64**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	**(19)**	**-**	**-**	**(19)**
Net Movement	**(19)**	**-**	**-**	**(19)**
Closing balance – 31 December 2023	**45**	**-**	**-**	**45**

Exposure Movement

	Stage 1	**Stage 2**	**Stage 3**	***RO'000*** **Total**
Opening Balance – 1 January 2023	**56,349**	**-**	**-**	**56,349**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	**(26,886)**	**-**	**-**	**(26,886)**
Net Movement	**(26,886)**	**-**	**-**	**(26,886)**
Closing balance – 31 December 2023	**29,463**	**-**	**-**	**29,463**

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Acceptance
ECL Movement

	Stage 1	Stage 2	Stage 3	***RO'000*** Total
Opening Balance – 1 January 2023	**13**	**6**	**-**	**19**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	**10**	**6**	**-**	**16**
Net Movement	**10**	**6**	**-**	**16**
Closing balance – 31 December 2023	**23**	**12**	**-**	**35**

Exposure Movement

	Stage 1	Stage 2	Stage 3	***RO'000*** Total
Opening Balance – 1 January 2023	**34,225**	**5,771**	**-**	**39,996**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	**17,859**	**1,255**	**-**	**19,114**
Net Movement	**17,859**	**1,255**	**-**	**19,114**
Closing balance – 31 December 2023	**52,084**	**7,026**	**-**	**59,110**

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Letter of Credit/Guarantee
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2023	1,670	3,266	1,252	6,188
Transfer between stages				
From Stage 1 to Stage 2	(38)	38	-	-
From Stage 2 to Stage 1	27	(27)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(11)	11	-	-
Net Movement during the year	(237)	1,083	189	1,035
Net Movement	(237)	1,083	189	1,035
Closing balance – 31 December 2023	1,422	4,360	1,441	7,223

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2023	559,104	100,588	3,056	662,748
Transfer between stages				
From Stage 1 to Stage 2	(27,488)	27,488	-	-
From Stage 2 to Stage 1	1,129	(1,129)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(26,359)	26,359	-	-
Net Movement during the year	29,514	(16,986)	226	12,754
Net Movement	29,514	(16,986)	226	12,754
Closing balance – 31 December 2023	562,259	109,961	3,282	675,502

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Loan commitment / unutilised limits
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2023	1,162	673	-	1,835
Transfer between stages				
From Stage 1 to Stage 2	(66)	66	-	-
From Stage 2 to Stage 1	11	(11)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(55)	55	-	-
Net Movement during the year	341	110	-	451
Net Movement	341	110	-	451
Closing balance – 31 December 2023	1,448	838	-	2,286

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2023	416,116	198,823	-	614,939
Transfer between stages				
From Stage 1 to Stage 2	(30,933)	30,933	-	-
From Stage 2 to Stage 1	4,351	(4,351)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(26,582)	26,582	-	-
Net Movement during the year	175,189	(68,390)	-	106,799
Net Movement	175,189	(68,390)	-	106,799
Closing balance – 31 December 2023	564,723	157,015	-	721,738

. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Sovereign
Exposure Movement

	Stage 1	**Stage 2**	**Stage 3**	***RO'000*** **Total**
Opening Balance – 1 January 2023	**398,445**	**-**	**-**	**398,445**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	**(14,303)**	**-**	**-**	**(14,303)**
Net Movement	**(14,303)**	**-**	**-**	**(14,303)**
Closing balance – 31 December 2023	**384,142**	**-**	**-**	**384,142**

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

2022:

Due from Bank
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	1,150	-	-	1,150
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movements during the year	(1,046)	-	-	(1,046)
Net Movement	(1,046)	-	-	(1,046)
Closing balance – 31 December 2022	104	-	-	104

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	126,248	-	-	126,248
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movements during the year	22,209	-	-	22,209
Net Movement	22,209	-	-	22,209
Closing balance – 31 December 2022	148,457	-	-	148,457

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Loans and Advances
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	20,015	34,931	82,535	137,481
Reclassification	131	212	-	343
Transfer between stages				
From Stage 2 to Stage 1	1,588	(1,246)	-	342
From Stage 1 to Stage 2	(161)	161	-	-
From Stage 1 and Stage 2 to Stage 3	(1)	(20,502)	20,161	(342)
Net Changes in Stage	1,426	(21,587)	20,161	-
Net Movement during the year	(8,861)	48,607	(903)	38,843
Net Movement	(8,861)	48,607	(903)	38,843
Write off	-	-	(866)	(866)
Closing balance – 31 December 2022	12,711	62,163	100,927	175,801

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	2,608,026	726,143	179,653	3,513,822
Transfer between stages				
From Stage 2 to Stage 1	20,471	(20,471)	-	-
From Stage 1 to Stage 2	(29,876)	29,876	-	-
From Stage 1 and Stage 2 to Stage 3	(231)	(868)	1,099	-
Net Changes in Stage	(9,636)	8,537	1,099	-
Net Movement during the year	58,639	40,864	33,327	132,830
Net Movement	58,639	40,864	33,327	132,830
Closing balance – 31 December 2022	2,657,029	775,544	214,079	3,646,652

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Investment securities
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	247	-	-	247
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	(183)	-	-	(183)
Net Movement	(183)	-	-	(183)
Closing balance – 31 December 2022	64	-	-	64

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	37,109	-	-	37,109
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	19,240	-	-	19,240
Net Movement	19,240	-	-	19,240
Closing balance – 31 December 2022	56,349	-	-	56,349

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Acceptance
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	899	16	-	915
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	(886)	(10)	-	(896)
Net Movement	(886)	(10)	-	(896)
Closing balance – 31 December 2022	13	6	-	19

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	175,018	6,080	-	181,098
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	(140,793)	(309)	-	(141,102)
Net Movement	(140,793)	(309)	-	(141,102)
Closing balance – 31 December 2022	34,225	5,771	-	39,996

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Letter of Credit/Guarantee
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	3,534	4,054	-	7,588
Transfer between stages				
From Stage 1 to Stage 2	(13)	13	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(13)	13	-	-
Net Movement during the year	(1,851)	(801)	1,252	(1,400)
Net Movement	(1,851)	(801)	1,252	(1,400)
Closing balance – 31 December 2022	1,670	3,266	1,252	6,188

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	463,445	98,632	7,148	569,225
Transfer between stages				
From Stage 1 to Stage 2	(506)	506	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(506)	506	-	-
Net Movement during the year	96,165	1,450	(4,092)	93,523
Net Movement	96,165	1,450	(4,092)	93,523
Closing balance – 31 December 2022	559,104	100,588	3,056	662,748

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Loan commitment / unutilised limits
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	1,669	1,140	-	2,809
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	30	(30)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	30	(30)	-	-
Net Movement during the year	(537)	(438)	-	(975)
Net Movement	(537)	(438)	-	(975)
Closing balance – 31 December 2022	1,162	672	-	1,834

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	427,530	195,875	-	623,405
Transfer between stages				
From Stage 1 to Stage 2	(3,265)	3,265	-	-
From Stage 2 to Stage 1	2,394	(2,394)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(871)	871	-	-
Net Movement during the year	(10,543)	2,077	-	(8,466)
Net Movement	(10,543)	2,077	-	(8,466)
Closing balance – 31 December 2022	416,116	198,823	-	614,939

7. Loans, advances and financing to customers *(continued)*

(g) Analysis of changes in the gross exposure and ECL *(continued)*

Cash held by a custodian
Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	-	-		-
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	5,316	-	-	5,316
Net Movement	5,316	-	-	5,316
Closing balance – 31 December 2022	5,316	-	-	5,316

Sovereign
Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	404,041	-	-	404,041
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	(5,596)	-	-	(5,596)
Net Movement	(5,596)	-	-	(5,596)
Closing balance – 31 December 2022	398,445	-	-	398,445

7. Loans, advances and financing to customers *(continued)*

(h). Reconciliation of financial assets and liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments:

31 December 23	**Notes**	**Designated as at FVTPL**	**FVOCI – equity instruments**	**FVOCI – debt instruments**	**Amortised cost**	**Total carrying amount**
Cash and balances with CBO	*5*	**-**	**-**	**-**	**125,931**	**125,931**
Loans and advances to banks	*6*	**-**	**-**	**-**	**227,078**	**227,078**
Loans and advances to customers	*7*	**-**	**-**	**-**	**3,765,584**	**3,765,584**
Investment securities	*8*	**755**	**45,162**	**123,401**	**290,159**	**459,477**
Other assets	*11*	**3,623**	**-**	**-**	**73,054**	**76,677**
		4,378	**45,162**	**123,401**	**4,481,806**	**4,654,747**
Due to banks	*12*	**-**	**-**	**-**	**505,916**	**505,916**
Deposits from customers	*13*	**-**	**-**	**-**	**3,299,223**	**3,299,223**
Other liabilities	*14*	**3,386**	**-**	**-**	**128,809**	**132,195**
		3,386	**-**	**-**	**3,933,948**	**3,937,334**

Other assets include RO 3.62 million of positive fair value of derivatives financial instruments mandatorily measured at FVPTL and other liabilities includes negative fair value derivatives financial instruments of RO 3.39 million.

31 December 22	Notes	Designated as at FVTPL	FVOCI – equity instruments	FVOCI – debt instruments	Amortised cost	Total carrying amount
Cash and balances with CBO	*5*	-	-	-	176,617	176,617
Loans and advances to banks	*6*	-	-	-	148,353	148,353
Loans and advances to customers	*7*	-	-	-	3,430,486	3,430,486
Investment securities	*8*	717	13,963	141,464	313,278	469,422
Other assets	*11*	4,730	-	-	60,789	65,519
		5,447	13,963	141,464	4,129,523	4,290,397
Due to banks	*11*	-	-	-	572,842	572,842
Deposits from customers	*12*	-	-	-	2,891,819	2,891,819
Other liabilities	*14*	3,970	-	-	117,992	121,962
		3,970	-	-	3,582,653	3,586,623

Other assets include RO 4.73 million of positive fair value of derivatives financial instruments mandatorily measured at FVPTL and other liabilities includes negative fair value derivatives financial instruments of RO 3.97 million.

8. Investment securities

	2023 RO'000	2022 RO'000
Equity investments:		
Measured at FVTPL	**755**	717
Measured at FVOCI	**45,162**	13,975
Gross equity investments	**45,917**	14,692
Debt investments:		
Designated at FVTPL	**-**	-
Measured at FVOCI	**123,446**	141,516
Measured at amortized cost	**290,159**	313,278
Gross debt investments	**413,605**	454,794
Total investment securities	**459,522**	469,486
Less: Impairment loss allowance	**(45)**	(64)
Total investment securities	**459,477**	469,422

		2022 RO'000
Investment securities measured as at FVTPL	**755**	717
Investment securities measured at FVOCI	**168,563**	155,427
Debt investments measured at amortised cost	**290,159**	313,278
	459,477	469,422

The Bank has designated some investments in equity instruments at FVOCI as these are investments that the Bank plans to hold in the long-term for strategic reasons. The movement of investment securities is summarised in the following pages.

8. Investment securities *(continued)*

8. 1 Categories of investments by measurement

31 December 2023	**Designated at FVTPL RO'000**	**FVOCI RO'000**	**Amortized cost RO'000**	**Total RO'000**
Quoted Equities:				
Other services sector	**-**	**2,334**	**-**	**2,334**
Unit funds	**-**	**22,220**	**-**	**22,220**
Financial services sector	**-**	**8,485**	**-**	**8,485**
Industrial sector	**-**	**11,432**	**-**	**11,432**
	-	**44,471**	**-**	**44,471**
Unquoted Equities:				
Local securities	**755**	**691**	**-**	**1,446**
	755	**691**	**-**	**1,446**
Gross Equity investments	**755**	**45,162**	**-**	**45,917**
Quoted Debt:				
Government Bonds and Sukuk	**-**	**103,972**	**261,045**	**365,017**
Foreign Bonds	**-**	**-**	**5,125**	**5,125**
Local Bonds and Sukuks	**-**	**19,474**	**9,989**	**29,463**
Treasury Bills	**-**	**-**	**14,000**	**14,000**
Gross debt investments	**-**	**123,446**	**290,159**	**413,605**
Total Investment Securities	**755**	**168,608**	**290,159**	**459,522**
Less: Impairment losses on investments	**-**	**(45)**	**-**	**(45)**
	755	**168,563**	**290,159**	**459,477**

Government Bonds and Sukuks represents Oman Government Bonds and Oman Sovereign Sukuk having face value of RO 284.26 million (2022: RO 363.47 million) at average coupon rate of 4% to 6% maturing between 2024 and 2029.

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO 000's	**FVOCI Equity investment RO 000's**	**Amortised cost RO 000's**	**FVTPL RO 000's**	**Total RO 000's**
At 1 January 2023	**141,464**	**13,963**	**313,278**	**717**	**469,422**
Additions	**10,001**	**31,713**	**24,881**	**-**	**66,595**
Disposals and redemption	**(34,763)**	**(1,251)**	**(48,000)**		**(84,014)**
Gain from change in fair value	**2,893**	**142**	**-**	**38**	**3,073**
Amortisation of discount and premium	**(51)**	**41**	**-**	**-**	**(10)**
Movement in Interest Accrued	**3,902**	**554**	**-**	**-**	**4,456**
Total	**123,446**	**45,162**	**290,159**	**755**	**459,522**
Less: Impairment losses on investments*	**(26)**	**(19)**	**-**	**-**	**(45)**
At 31 December 2023	**123,420**	**45,143**	**290,159**	**755**	**459,477**

* the amount of ECL is adjusted in the carrying value of FVOCI debt instruments and not recognised in other comprehensive income.

8. Investment's securities *(continued)*

8. 1 Categories of investments by measurement *(continued)*

31 December 2022	Designated at FVTPL	FVOCI	Amortized cost	Total
	RO'000	RO'000	RO'000	RO'000
Quoted Equities:				
Other services sector	-	518	-	518
Unit funds	-	-	-	-
Financial services sector	-	11,284	-	11,284
Industrial sector	-	1,482	-	1,482
	-	13,284	-	13,284
Unquoted Equities:				
Local securities	-	691	-	691
Unit funds	717	-	-	717
	717	691	-	1,408
Gross Equity investments	717	13,975	-	14,692
Quoted Debt:				
Government Bonds and Sukuk	-	94,814	303,631	398,445
Foreign Bonds	-	383	-	383
Local Bonds and Sukuks	-	46,319	9,647	55,966
Treasury Bills	-		-	-
Gross debt investments	-	141,516	313,278	454,794
Total Investment Securities	717	155,491	313,278	469,486
Less: Impairment losses on investments	-	(64)	-	(64)
	717	155,427	313,278	469,422

The Bank has designated certain investments in equity instruments at FVOCI as these are investments that the bank plans to hold for long-term for strategic reasons.

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments	FVOCI Equity investment	Amortised cost	FVTPL	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
At 1 January 2022	116,753	2,490	324,150	2,823	446,216
Additions	22,073	11,807	47,648	5	81,533
Disposals and redemption	(4,627)	-	(60,874)	(1,996)	(67,497)
Gain /(loss) from change in fair value	377	(406)	-	(115)	(144)
Amortisation of discount and premium	(51)	-	(520)	-	(571)
Movement in Interest Accrued	6,991	84	2,874		9,949
Total	141,516	13,975	313,278	717	469,486
Less: Impairment losses on investments*	(52)	(12)	-	-	(64)
At 31 December 2022	141,464	13,963	313,278	717	469,422

* The amount of ECL is adjusted in the carrying value of FVOCI debt instruments and not recognised in other comprehensive income.

9. Intangible assets

	31-Dec-2023	31-Dec-2022
	RO'000	RO'000
Cost		
1 January	**36,248**	34,206
Additions	**2,755**	2,235
Disposals	**-**	(193)
	39,003	36,248
Depreciation		
1 January	**23,679**	20,214
Charge for the year	**2,984**	3,465
	26,663	23,679
Carrying value	**12,340**	12,569

Intangible assets represents computer software acquired by the Bank over the period. The estimated useful life of these intangible assets ranges between four to ten years.

10 Property and equipment

31 December 2023	Freehold Land	Buildings	Furniture and Fixtures	Motor Vehicles	Computer Equipment	Capital work-in-progress	Right use of Asset	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost								
1 January 2023	**140**	**1,463**	**19,545**	**995**	**18,683**	**11**	**3,008**	**43,845**
Additions	**-**	**-**	**1,816**	**3**	**3,229**	**68**	**426**	**5,542**
Disposals	**-**	**-**	**(831)**	**-**	**-**	**-**	**-**	**(831)**
31 December 2023	**140**	**1,463**	**20,530**	**998**	**21,912**	**79**	**3,434**	**48,556**
Depreciation								
1 January 2023	**-**	**1,463**	**16,856**	**949**	**15,432**	**-**	**2,567**	**37,267**
Charge for the year	**-**	**-**	**1,381**	**27**	**1,830**	**-**	**282**	**3,520**
Disposals	**-**	**-**	**(831)**	**-**	**-**	**-**	**-**	**(831)**
31 December 2023	**-**	**1,463**	**17,406**	**976**	**17,262**	**-**	**2,849**	**39,956**
Carrying value 31 December 2023	**140**	**-**	**3,124**	**22**	**4,650**	**79**	**585**	**8,600**

10. Property and equipment *(continued)*

31 December 2022	Freehold Land RO'000	Buildings RO'000	Furniture and Fixtures RO'000	Motor Vehicles RO'000	Computer Equipment RO'000	Capital work-in-progress RO'000	Right use of Asset RO'000	Total RO'000
Cost								
1 January 2022	140	1,463	18,349	1,300	16,478	-	2,870	40,600
Additions	-	-	2,397	50	2,205	11	138	4,801
Disposals	-	-	(1,201)	(355)	-	-	-	(1,556)
31 December 2022	140	1,463	19,545	995	18,683	11	3,008	43,845
Depreciation								
1 January 2022	-	1,358	15,624	1,277	13,716	-	2,054	34,029
Charge for the year	-	105	1,232	27	1,716	-	513	3,593
Disposals	-	-	-	(355)	-	-	-	(355)
31 December 2022	-	1,463	16,856	949	15,432	-	2,567	37,267
Carrying value 31 December 2022	140	-	2,689	46	3,251	11	441	6,578

11. Other assets

	2023 RO'000	2022 RO'000
Acceptances	**59,110**	39,996
Prepaid expenses	**3,936**	1,680
Positive fair value of derivatives (note 30)	**3,623**	4,730
Other receivables	**13,944**	20,793
Less: allowance for expected credit losses	**(35)**	(19)
	80,578	67,180

Credit quality of acceptances and interest receivables is presented in note 32.

12. Due to banks

	2023 RO'000	2022 RO'000
Syndicated Inter bank borrowings	**308,005**	288,750
Interbank borrowings	**196,675**	283,909
Payable on demand	**1,236**	183
	505,916	572,842

At 31 December 2023, inter bank borrowings includes Islamic Banking Window's inter bank borrowings with other banks of RO 23.5 million (2022: RO 19.25 million). The Bank has complied with the financial covenants of its borrowing facilities during the year 2023 and 2022.

At 31 December 2023, interbank borrowing with two banks individually exceeded 20% of the due to bank outstanding balance (2022: two bank, 20%). The Bank has not had any defaults of principal, interest, or other breaches during the year on its borrowed funds.

13. Deposits from customers

Conventional Banking

	2023 RO'000	2022 RO'000
Current accounts	**825,264**	680,269
Savings accounts	**414,476**	398,950
Time and certificate deposits	**1,468,433**	1,324,059
Margin accounts	**26,999**	13,409
	2,735,172	2,416,687

Islamic Banking

	2023 RO'000	2022 RO'000
Current accounts	**138,551**	149,547
Savings accounts	**79,745**	54,145
Time deposits	**340,607**	266,715
Margin accounts	**5,148**	4,725
	564,051	475,132

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,385.53 million as at 31 December 2023 (2022: RO 1,078.28 million).

14. Other liabilities

	2023	2022
	RO'000	RO'000
Acceptances	**59,110**	39,996
Creditors and accruals	**59,361**	68,478
Negative Fair Value of Derivative (note 30)	**3,386**	3,970
Lease liabilities	**529**	357
Allowance for expected credit losses on off-balance sheet items (note 7)	**8,069**	8,023
	130,455	120,824

Allowance for expected credit losses on off-balance sheet items consists of Loan commitments and financial guarantees, and Unutilised credit limit. Refer note 7.

14 (a) Employee benefit obligations

The Bank's net liability and the movement in the employee terminal benefits during the year are as follows:

	2023	2022
	RO'000	RO'000
1 January	**1,138**	2,357
Charge for the year	**351**	291
Payments made during the year	**(126)**	(1,510)
Adjustments	**377**	-
	1,740	1,138

15 Share capital

The authorised share capital consists of 5,000,000,000 ordinary shared of RO 0.100 each (2022: 5,000,000,000 ordinary shares of RO 0.100 each).

At 31 December 2023, the issued and paid up share capital comprise 2,996,351,436 (2022: 2,996,351,436 ordinary shares of RO 0.100 each).

Shareholders:

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

	2023		2022	
	No. of shares	**%**	No. of shares	%
Dhofar International Development and Investment Company SAOG	**722,013,458**	**24.10%**	730,570,498	24.38%
Eng. Abdul Hafidh Salim Rajab Al Ojaili and his related Companies	**741,609,646**	**24.75%**	713,971,362	23.83%
Civil Service Employees Pension Fund	**315,528,426**	**10.53%**	317,814,101	10.61%
Others	**1,217,199,906**	**40.62%**	1,233,995,475	41.18%
Total	**2,996,351,436**	**100.00%**	2,996,351,436	100.00%

The Bank's Islamic Banking Window, "Maisarah" Islamic Banking Services has an allocated capital of RO 70 million in respect of Islamic Banking Window from the core paid up capital of the Bank as of 31 December 2023 (2022 : RO 70 million)

16 Perpetual Tier 1 Capital Securities

	2023	2022
	RO'000	RO'000
Tier 1 RO Securities	**155,500**	155,500
	155,500	155,500

16 (b) Perpetual Tier 1 Capital Securities *(continued)*

Tier 1 RO Securities

(a) In October 2022, the Bank issued Perpetual Tier 1 RO Capital Securities (the "Tier 1 RO Securities"), amounting to OMR 115,500,000, denominated in Riyal Omani. This Tier 1 RO Securities is listed on Muscat Stock Exchange.

The Tier 1 RO Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 RO Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion in October 2027 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 RO Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.75%. Thereafter the interest rate will be reset at five-year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity.

(b) In December 2023, the Bank has redeemed the Perpetual Tier 1 RO Capital Securities amounting to OMR 40,000,000 issued in December 2018 which were at annual rate of 7.50%. This Tier 1 RO Securities was listed on Muscat Stock Exchange.

Further in December 2023, the Bank issued Perpetual Tier 1 RO Capital Securities (the "Tier 1 RO Securities"), amounting to OMR 40,000,000, denominated in Riyal Omani. This Tier 1 RO Securities is listed on Muscat Stock Exchange.

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

The Tier 1 RO Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.00%. Thereafter the interest rate will be reset at five-year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity.

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

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

17 Share premium

i. In 2018, the Bank issued 361,842,105 ordinary shares by way of rights issue, a share premium of RO 0.050 per share, resulting in an increase of share capital and share premium by RO 36.18 million and RO 18.09 million, respectively.

ii. In 2017, the Bank issued 216,216,216 shares by way of rights issue at a premium of RO 0.083 resulting in increase of share capital and share premium by RO 21.62 million and RO 17.95 million, respectively.

iii. In 2016, the Bank issued 200,000,000 shares by way of rights issue at a premium of RO. 0.098 resulting in increase of share capital and share premium by RO 20 million and RO 19.60 million, respectively.

iv. In 2011, the shareholders of the Bank in the annual general meeting approved the issuance of 20.2% bonus shares amounting to RO 18.49 million (184,878,143 shares of par value RO 0.100 each) from the share premium account.

v. In 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in increase of share capital and share premium by RO 17.69 million and RO 53.08 million, respectively.

vi. In 2003, pursuant to the "merger agreement", the Bank has issued 6,681,818 shares of RO 1 each to erstwhile shareholders of Majan International Bank at a premium of RO 5.4 million. This is available for distribution.

18 Reserves

(a) Legal reserve

	2023 RO'000	2022 RO'000
1 January	**67,955**	64,538
Appropriation for the year	**3,876**	3,417
31 December	**71,831**	67,955

In accordance with the Commercial Companies Law of 2019, annual appropriations of 10% of net profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This legal reserve may be used for covering the Bank's losses and the increase of its share capital by way of issuing shares and it is not available for distribution to the shareholders as dividends except where the Bank reduces its share capital, provided that the legal reserve shall not be less than one third of the share capital after the reduction.

(b) Subordinated loans reserve

	2023 RO'000	2022 RO'000
1 January	-	28,000
Appropriation for the year:		
Subordinated loan reserve	-	7,000
Transfer to retained earnings (refer (i) below)	-	(35,000)
31 December	-	-

Consistent with the Bank for International Settlement ("BIS") Guidelines on capital adequacy, the Bank transfers an amount equivalent to 20% of the value of the subordinated loan each year to the subordinated loan reserve until the maturity of the loan. The amount of the reserve will be transferred to retained earnings through the statement of changes in equity upon settlement of the subordinated loan.

(i) In November 2022, Subordinated Loan of RO 35 million (USD 75 million) was repaid upon maturity.

(c) Investment revaluation reserve

The investment revaluation reserve comprises of the cumulative net change in the fair value of equity securities measured at FVOCI and the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified.

The movement in the investment revaluation reserve is analysed below:

	2023 RO'000	2022 RO'000
1 January	**(3,506)**	(3,477)
Change in fair value of debt instruments	**3,306**	377
Change in fair value of equity instruments	**142**	(406)
Change in investment reserve on disposal	**-**	-
31 December	**(58)**	(3,506)

18 Reserves *(continued)*

(d) Special reserve

During 2021, CBO has approved to distribute RO 500K from the special reserve to retained earnings for utilization of corporate social responsibility donation in relation to Cyclone Shaheen.

During 2020, CBO has approved to distribute RO 1 million from the special reserve to retained earnings for utilization of corporate social responsibility donation in relation to COVID-19.

During 2013, the Bank recognised in statement of comprehensive income, recovery from a legal case of RO 26.1 million, out of which, the Bank allocated RO 18.49 million (equivalent amount that was used from share premium account for issuance of bonus shares, and which was approved by the Shareholders in the annual general meeting held on 28 March 2012) to a special reserve to strengthen its capital. Prior approval of CBO is required for any distribution from this 'special reserve account'.

(e) Special reserve for restructured loans

In accordance with Central Bank of Oman circular BSD/2018/BKUP/Bank and FLC's/467 dated 20 June 2018, the banks are required to create a special reserve of 15% for all restructured financing after the date of circular. The amount is computed as an appropriation from net profit and is not eligible to be considered for the purpose of regulatory capital and dividend distribution. This requirement to create the special reserve at 15% on restructured financing has been dispensed on immediate effect based on Central Bank of Oman circular BSD/CB/FLC/2019/15 dated 18 November 2018.

(f) Special Impairment reserve – net of tax

CBO circular BM 1149 requires the Bank to create a reserve for the difference between provisions under CBO norms and IFRS 9 when provisions, under CBO norms are higher than IFRS 9 provisions. There is no transfer made during the year due to suspension of two track approach by CBO.

(g) Special investment revaluation reserve

From 1 January 2018, the Bank classified its portfolio of equity investments as FVOCI (elected). Certain investments were previously impaired, with the allowance for expected credit losses of RO 0.71 million charged to statement of comprehensive income . A one off adjustment was recorded on 1 January 2018 to retained earnings to account this as part of transition adjustments of the Bank under IFRS 9. This reserve will be released to retained earnings on disposal of investments.

19 Retained earnings

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

20 Net assets per share

Net assets per share are calculated by dividing net assets attributable to equity holders of the Bank at the year-end by the number of shares outstanding at 31 December as follows:

	2023 RO'000	2022 RO'000
Net assets (RO)	**577,454,577**	561,577,000
Number of shares outstanding at the end of the year	**2,996,351,436**	2,996,351,436
Net assets per share (RO)	**0.193**	0.187

21 Interest income / Income from Islamic financing and Investments

	2023	2022
Conventional Banking	**RO’000**	RO’000
Loans and advances	**180,712**	158,049
Due from banks	**20,327**	6,808
Investments	**18,762**	19,950
Total	**219,801**	184,807

	2023	2022
Islamic Banking	**RO’000**	RO’000
Islamic financing receivables	**37,488**	31,729
Islamic due from banks	**61**	67
Investments	**4,263**	4,666
Total	**41,812**	36,462

22. Interest expense / Unrestricted investment account holders’ share of profit and profit expense

	2023	2022
Conventional Banking	**RO’000**	RO’000
Customers’ deposits	**(86,358)**	(64,743)
Subordinated liabilities / mandatory convertible bonds	**-**	(1,905)
Bank borrowings	**(42,690)**	(17,498)
Total	**(129,048)**	(84,146)

Islamic Banking		
Customer Deposits	**(19,329)**	(13,794)
Islamic bank borrowings	**(2,415)**	(913)
Total	**(21,744)**	(14,707)

(a) Other operating income

	2023	2022
	RO’000	RO’000
Foreign exchange	**4,546**	2,435
Investment income *22 (b)*	**1,751**	716
Miscellaneous income	**2,273**	2,693
	8,570	5,844

(b) Investment income by measurement category

Dividend income	**667**	265
Income from perpetual securities	**1,045**	438
Gain on disposals of investments – FVTPL	**39**	13
	1,751	716

23 Staff and administrative costs

(a) Staff costs

	2023 RO'000	2022 RO'000
Salaries and allowances	**(36,959)**	(36,440)
Other personnel costs	**(6,784)**	(5,028)
Social insurance contribution	**(2,438)**	(2,624)
Non-Omani employees' terminal benefit	**(351)**	(291)
	(46,532)	(44,383)

On 31 December 2023, the Bank had 1,689 employees (2022: 1,509 employees).

(b) Administrative costs

	2023 RO'000	2022 RO'000
Occupancy costs	**(3,286)**	(3,098)
Operating and administration cost	**(8,784)**	(10,326)
Others	**(3,542)**	(4,818)
	(15,612)	(18,242)
Total staff and administrative cost	**(62,144)**	(62,625)

24 Income tax

(a) Income tax expense:

	2023 RO'000	2022 RO'000
Current tax		
Current year charge	**7,048**	10,600
Prior years	**(1,949)**	(1,863)
	5,099	8,737
Deferred tax		
Current year	**-**	(4,533)
Prior years	**(82)**	1,827
	(82)	(2,706)
Tax expense for the year	**5,017**	6,031

Interest on Additional Tier 1 Securities is reflected in the statement of changes in equity for the years ended 31 December 2015 to 31 December 2023. The Tax Authority ("TA") has completed the assessment for the years 2015 to 2020 wherein the TA has disallowed interest on Additional Tier 1 Securities. The Bank would pursue the matter further by filing an Objection with the TA. However, on a conservative basis, the Bank has created a current tax provision against the disallowance of the interest on Additional Tier 1 Securities.

The tax rate applicable to the Bank is 15% (2022: 15%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 15.74% (2022: 15%).

24 Income tax *(continued)*

(b) The reconciliation of taxation on the accounting profit before tax for the year at RO 43.78 million (2022: RO 40.20 million) and the taxation charge in the financial statements is as follows:

	2023 RO'000	2022 RO'000
Profit before tax	**43,775**	40,204
Income tax as per rates mentioned above	**6,566**	6,031
Tax exempt revenue	**(3)**	50
Non-deductible expenses	**485**	(14)
Current tax Prior years	**(1,949)**	(1,863)
Deferred tax - prior years	**(82)**	1,827
Tax expense for the year	**5,017**	6,031

The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

(c) The deferred tax asset/liability has been recognised at the effective tax rate of 15% (2022 - 15%) Deferred tax asset / (liability) in the statement of financial position and the deferred tax credit / (charge) in the statement of comprehensive income relates to the tax effect of provisions, Allowance for expected credit losses on financial instruments, change in fair value of FVOCI investment and derivatives, accelerated depreciation and expenses disallowed which give rise to deferred tax asset are as follows:

Particulars	**Opening** *RO '000*	**Recognised in SCI**	**2023** *RO '000*	**Recognised in SOCE**
Property and equipment	**(717)**	**(213)**	**(930)**	**-**
Provision for legal claim	**462**	**(222)**	**240**	**-**
Right of Use Asset and lease liability	**(13)**	**4**	**(9)**	**-**
Allowance for expected credit losses on financial instruments	**6,364**	**510**	**6,874**	**-**
Investment revaluation (Non listed)	**121**	**-**	**121**	**-**
Fair value derivatives	**(96)**	**-**	**(96)**	**-**
Investment carried at fair value through profit and loss account	**6**	**3**	**9**	**-**
Net deferred tax asset	**6,127**	**82**	**6,209**	**-**

Particulars	Opening *RO '000*	Recognised in SCI	2022 *RO '000*	Recognised in SOCE
Property and equipment	(726)	8	(717)	-
Provision for legal claim	376	86	462	-
Right of Use Asset and lease liability	(52)	39	(13)	-
Allowance for expected credit losses on financial instruments	3,785	2,579	6,364	-
Investment revaluation (Non listed)	121	-	121	13
Fair value derivatives	(96)	-	(96)	-
Investment carried at fair value through profit and loss account	12	(6)	6	-
Net deferred tax asset	3,420	2,706	6,127	13

24 Income tax *(continued)*

***(d)* Status of previous year returns:**

The tax assessments of the Bank up to and including the Tax Year 2020 has been assessed and finalized by the TA. The Bank has filed a grievance with tax grievance committee for disallowance of Interest on Additional Tier 1 Securities for the Tax Years 2015 to 2020. The tax assessment of the Bank for the Tax Year 2021 to 2023 is yet to be taken up by the TA.

***(e)* Tax liabilities**

The movement in the current income tax liability is summarised as follows:

	2023	2022
	RO'000	RO'000
At 1 January	**13,632**	9,422
Charge for the year	**5,017**	8,737
Payments during the year	**(3,140)**	(4,527)
At 31 December	**15,509**	13,632

25 Earnings per share (basic and diluted)

The calculation of basic and diluted earnings per share is based on profit for the year attributable to ordinary shareholders as follows:

	2023	2022
Profit for the period (RO)	**38,758,150**	34,173,371
Less: Additional Tier 1 Coupon	**(10,796,750)**	(9,375,600)
Profit for the period attributable to equity holders of the Bank	**27,961,400**	24,797,771
Weighted average number of shares outstanding during the period	**2,996,351,436**	2,996,351,436
Earnings per share basic and diluted (RO)	**0.009**	0.008

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

26 Related parties' transactions

In the ordinary course of business, the Bank conducts certain transactions on mutually agreed terms with its Directors, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2023	2022
	RO'000	RO'000
Loans, advances and financing		
Shareholders holding 20% or more interest in the Bank and their related entities	**57,316**	52,250
Other related parties	**81,052**	68,798
	138,368	121,048
Deposits and other accounts		
Shareholders holding 20% or more interest in the Bank and their related entities	**105,292**	58,452
Other related parties	**454,395**	306,127
	559,687	364,579
Contingent liabilities and commitments		
Shareholders holding 20% or more interest in the Bank and their related entities	**6,853**	3,983
Other related parties	**5,041**	5,678
	11,894	9,661

Interest Income earned from Loans and advances to Related Parties amounts to RO 4.62 million (2022: RO 7.28 million) of which RO 1.97 million (2022: RO 1.28 million) pertains to Directors, shareholders (holding 20% or more interest in the Bank).

Interest Expense incurred on Deposits from Related parties amounts to RO 18.79 million (2022: RO 7.30 million) of which RO 14.96 million (2022: RO 3.88 million) pertains to Directors, shareholders (holding 10% or more interest in the Bank), RO 3.83 million (2022: RO 1.71 million) pertains to Directors, shareholders (holding 20% or more interest in the Bank).

Majority of the loans and advances given to related parties are classified as Stage 1 and attract an ECL consistent with the methodology and assumptions for all stage 1 exposures as explained in note 7.

Balances and transactions with other related parties in the table above substantially represent the transactions and balances with shareholders holding less than 20% share capital of the Bank and their related entities, transaction and balances with entities where directors have control or common directors. These are considered related parties under regulatory requirements.

26 Related parties' transactions (*continued)*

	2023	2022
	RO'000	RO'000
Remuneration paid to Directors		
Chairman		
– remuneration paid	**36**	36
– sitting fees paid	**10**	10
Other Directors		
– remuneration paid	**264**	264
– sitting fees paid	**72**	73
	382	383
Other transactions		
Rental payment to related parties	**635**	541
Insurance	**5,408**	1,847
Other transactions	**2,758**	1,512
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	**44**	46
Key management compensation		
Salaries and other short-term benefits	**2,277**	1,695
Staff terminal benefit	**54**	30

Loans to related parties carry interest at rates ranging between 2% and 7.25% (2022: 2% and 7%). Deposits from related parties attract interest at rates ranging between 0.25% and 6.25% (2022: 0.5% and 4.4%).

Key management comprises of 6 personnel (2022: 6) of the management executive committee in the year 2023. The Bank considers the personnel of Management Executive Committee to be key management personnel for the purposes of IAS 24 'Related Party Disclosures.

27 Single borrower and senior members

Single borrowers are connected counterparties with credit exposure in excess of 15% of the Bank's capital. Senior members include senior positions directly related to the top management of the Bank, a holding company owning 25% of more of the net worth of the Bank and their related business interests/affiliates.

(a) Single borrower

	2023	2022
	RO'000	RO'000
Single borrower		
Total direct exposure	**446,616**	462,627
Number of members	**2**	2

(b) Senior members

The information in the below table is also included in the exposure with related parties disclosed in note 26.

	2023	2022
	RO'000	RO'000
Total exposure:		
Direct	**142,722**	124,974
Indirect	**11,898**	9,661
	154,620	134,635
Number of members	**41**	41

28 Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit and guarantees provided by the Bank to the customers are as follows:

	2023	2022
	RO'000	RO'000
Letters of credit	**87,730**	88,961
Guarantees and performance bonds	**587,772**	573,787
	675,502	662,748

At 31 December 2023, letters of credit, guarantees and other commitments amounting to RO 341.57 (2022: RO 293.72 million) are counter guaranteed by other banks.

At 31 December 2023, the Irrevocable unutilised limits towards the loans, advances and financing to customers amount to RO 721.74 million (2022: 614.94 million).

Refer to note 7 and note 32 for the details on credit loss allowances and credit quality of financial assets.

(b) Capital and investment commitments

	2023	2022
	RO'000	RO'000
Contractual commitments for property and equipment/computer software	**4,164**	3,001

(c) Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2023. Directors have made an assessment of these cases and made appropriate provisions. The recognised provision reflects the directors' best estimate of the most likely outcome. In cases where no provisions have been made, professional advice indicates that it is unlikely that any significant loss will arise.

29 Disaggregation of net fees and commission income

	Retail banking	**Corporate banking**	**Treasury and investment banking**	**Sub Total**	**Islamic Banking**	**Total**
31 December 2023	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Fee Income						
Transactional services	**9,416**	**915**	**255**	**10,586**	**556**	**11,142**
Trade services	**-**	**4,045**	**2,689**	**6,734**	**226**	**6,960**
Syndication and other financing related services	**768**	**5,942**	**2,145**	**8,855**	**2,008**	**10,863**
Advisory and asset management services	**-**	**141**	**99**	**240**	**1,236**	**1,476**
	10,184	**11,043**	**5,188**	**26,415**	**4,026**	**30,441**
Fee Expense						
Transactional Services	**(3,473)**	**(282)**	**(1,793)**	**(5,548)**	**(28)**	**(5,576)**
Syndication and Other Financing related services	**-**	**-**	**-**	**-**	**(173)**	**(173)**
Fee Expense	**(3,473)**	**(282)**	**(1,793)**	**(5,548)**	**(201)**	**(5,749)**
Net fee and commission income	**6,711**	**10,761**	**3,395**	**20,867**	**3,825**	**24,692**

29 Disaggregation of net fees and commission income *(continued)*

31 December 2022	Retail banking RO'000	Corporate banking RO'000	Treasury and investment banking RO'000	Sub Total RO'000	Islamic Banking RO'000	Total RO'000
Fee Income						
Transactional services	6,765	290	106	7,161	491	7,652
Trade services	-	3,995	1,376	5,371	278	5,649
Syndication and other financing related services	695	3,026	899	4,620	554	5,174
Advisory and asset management services	-	-	8	8	722	730
	7,460	7,311	2,389	17,160	2,045	19,205
Fee Expense						
Transactional Services	(2,729)	(1)	(15)	(2,745)	(53)	(2,798)
Syndication and Other Financing related services	-	-	(1,400)	(1,400)	(115)	(1,515)
Fee Expense	(2,729)	(1)	(1,415)	(4,145)	(168)	(4,313)
Net fee and commission income	4,731	7,310	974	13,015	1,877	14,892

30 Derivative financial instruments

The Bank uses the following derivative instruments for non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities shown within other assets and other liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

RO 000's

31 December 2023	**Positive fair value**	**Negative Fair Value**	**Notional amount total**	**Notional amounts by term to maturity**		
				within 3 months	**4-12 months**	**> 12 months**
Derivatives:						
Interest rate swaps	**-**	**3,300**	**52,301**	**-**	**-**	**52,301**
IRS customer	**3,300**	**-**	**52,301**	**-**	**-**	**52,301**
Forward purchase contracts	**-**	**86**	**678,144**	**323,563**	**205,314**	**149,267**
Forward sales contracts	**323**	**-**	**677,915**	**323,976**	**205,370**	**148,569**
Total	**3,623**	**3,386**	**1,460,661**	**647,539**	**410,684**	**402,438**

30 Derivative financial instruments *(Continued)*

RO 000's

31 December 2022	Positive fair value	Negative Fair Value	Notional amount total	Notional amounts by term to maturity within 3 months	4-12 months	> 12 months
Derivatives:						
Interest rate swaps	-	3,853	56,888	-	-	56,888
IRS customer	3,853	-	56,888	-	-	56,888
Forward purchase contracts	-	117	804,160	316,849	355,112	152,199
Forward sales contracts	877	-	803,198	316,787	334,167	152,224
Total	4,730	3,970	1,721,134	633,636	689,279	418,199

Interest rate swaps entered by the Bank are back-to-back arrangements and therefore the amount of positive and negative fair value is equal.

The following table indicates the positive fair values of derivatives (net) associated with derivatives that are recognised in the statement of comprehensive income.

	Assets		**Liabilities**	
	31-Dec-2023 RO'000	31-Dec-2022 RO'000	**31-Dec-2023 RO'000**	31-Dec-2022 RO'000
Expected cash flows	**408**	760	**408**	760

31 Fair value information

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position (Level 3).

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 Fair value information *(Continued)*

At 31 December 2023	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Total RO'000**	**Cost RO'000**
Financial assets					
Investments at FVOCI	**167,007**	**910**	**691**	**168,608**	**167,823**
Investments at FVTPL	**-**	**-**	**755**	**755**	**1,008**
Derivative financial instruments					
Forward foreign exchange contracts	**-**	**323**	**-**	**323**	**-**
IRS customer	**-**	**3,300**	**-**	**3,300**	**-**
Total	**167,007**	**4,533**	**1,446**	**172,986**	**168,831**
Financial liabilities					
Derivative financial instruments					
Forward foreign exchange contracts	**-**	**86**	**-**	**86**	**-**
Interest rate swaps	**-**	**3,300**	**-**	**3,300**	**-**
Total	**-**	**3,386**	**-**	**3,386**	**-**

At 31 December 2022	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000	Cost RO'000
Financial assets					
Investments at FVOCI	134,843	19,957	691	155,491	158,651
Investments at FVTPL	-	-	717	717	758
Derivative financial instruments					
Forward foreign exchange contracts	-	877	-	877	-
IRS customer	-	3,853	-	3,853	-
Total	134,843	24,687	1,408	160,938	159,409
Financial liabilities					
Derivative financial instruments					
Forward foreign exchange contracts	-	117	-	117	-
Interest rate swaps	-	3,853	-	3,853	-
Total	-	3,970	-	3,970	-

The impact of change in estimates used in measurement of fair value of level 3 securities is not material to the financial statements. The following table demonstrates the movement of the Bank's level 3 investments:

Level 3 movement – 31 December 2023

	FVTPL RO 000's	**FVOCI RO 000's**	**Total RO 000's**
At 1 January	**717**	**691**	**1,408**
Total gains	**38**	**-**	**38**
Purchases	**-**	**-**	**-**
Sales	**-**	**-**	**-**
Transfer from level 3	**-**	**-**	**-**
At 31 December	**755**	**691**	**1,446**

Level 3 movement – 31 December 2022

	FVTPL RO 000's	FVOCI RO 000's	Total RO 000's
At 1 January	1,649	517	2,166
Total gains	44	174	218
Purchases	5	-	5
Sales	(981)	-	(981)
Transfer from level 3	-	-	-
At 31 December	717	691	1,408

31 Fair value information *(Continued)*

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index process and expected price volatilities and correlations.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Transfer between level 1 and level 2

There were no transfers between level 1 and level 2 of the fair value hierarchy during the year.

32 Financial risk management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. The Risk Management Division of the Bank is an independent and dedicated unit reporting directly to the Board Risk Committee (“BRC”). The division’s primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the Bank’s committees are among the factors which reflect the independence of the Risk Management Divisions (RMD) working and the key role it plays within the Bank.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors (“the Board”) for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. The Board Risk Committee is responsible for reviewing and recommending to the full Board for approval of all risk policies and procedures. BRC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meeting.

A. Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the loans, advances and Islamic financing, amounts due from banks and investment in debt securities. The Bank has an independent credit risk management function which identifies, assesses and manages the credit risk at an individual or entity level. All the Corporate credit proposals are assessed independently by RMD before they are considered by the appropriate approving authorities. The Bank has defined various levels of authorities for credit approval with Board Executive Committee being the final credit approving authority of the Bank and mainly responsible for approving all credit proposals beyond the authority level set for the management. This committee is also the final authority for approving investments beyond the set authority of the management. The Management Credit Committee (“MCC”) is the credit decision making body at the management level which is empowered to consider all credit related issues up to certain limit.

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

The Bank has established robust credit risk management policies and procedures and a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio and monitors credit concentration limits.

Maximum counterparty/Bank exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance, prior CBO approval is obtained. Individual country limits using internal ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board Risk Committee. Retail lending is strictly in accordance with the CBO.

As at 31 December 2023, The Bank has restructured loans amounting to OMR 488.94 million, constituting 12.32% of the Gross loans and Advances. The Bank has also considered ECL to address significant increase in credit risk in certain accounts based on its judgment and experience.

The Bank estimates its expected credit losses (ECLs) considering the macroeconomic indicators and ECLs were estimated based on a range of forecasts for economic conditions as at that date and considering that the situation is fast evolving, the Bank has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. The macro-economic variables for estimation of forward looking factor in ECL were identified based on their level and direction of association with asset quality ratio of Oman Banking sector. The forward-looking factor (called as Cyclicality Index) used is determined from the observed historical macro-economic factors. The cyclicality index is used to forecast expected point-in-time probability of defaults for all the portfolio for which ECL is estimated and correlation is observed between the Cyclicality index and macro-economic factors. The forward-looking macro-economic factors were revised in first half of year 2023, in line with the revision of projections by the IMF. The revision made in the macro-economic indicators during last year is provided as under:

	Real GDP growth (%)		Oil revenue (%GDP)	
	As at 31 December 2022	**As at 31 December 2023**	**As at 31 December 2022**	**As at 31 December 2023**
Present	12.70%	5.00%	25.97%	29.42%
Year 1	5.60%	5.50%	33.35%	28.00%
Year 2	2.70%	1.90%	28.77%	27.97%
Year 3	2.50%	2.30%	26.35%	26.20%

The ECL has been calculated as probability weighted figure for three scenarios i.e. Base case, Upside and Downside with 50%, 25% and 25% weightings respectively. No change has been considered in the weightage. Real GDP growth projections have improved, as considered in Oman budget 2023 for 2022 and for the next three years projection is provided by IMF.

The Bank's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its usual model refinement exercise. Other than changes in the macro-economic indicators, Bank has not considered any other change in ECL model. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. In order to meet any additional challenge, Bank has also considered additional customer specific overlays, based on the management experience and close monitoring of the customers with significant increase in credit risk.

The total expected credit loss as at 31 December 2023 stood at OMR 177.78 million as compared to OMR 184.01 million as at 31 December 2022. The total ECL has decreased by OMR 6.23 million, which is 3.39% less than the last year position. Out of OMR 177.78 million, Bank is maintaining ECL of OMR 121.04 million (2022: OMR 133.949 million) in Corporate portfolio, OMR 4.71 million (2022: OMR 3.490 million) in SME portfolio and OMR 48.18 million (2022: 45.433 million) in Retail portfolio. Since, the models may not always capture all the stressed events, it is therefore prudent to incur additional ECL based on the management experience and current uncertain situation in the economy. Accordingly, Bank has considered account specific post model adjustments of OMR 1.72 million (31 December 2022- RO 3.7 million).

Other receivables of the Bank are generally short term in nature and with history of insignificant default and hence ECL impact from this balance considered to be immaterial.

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

Sensitivity of ECL to future economic conditions

The Bank is currently using three scenarios viz., Base case, Upside and Downside and weightage of 50%, 25% and 25% respectively is applied to estimation the ECL. The below table provides the impact on ECL on major assets, if weight of 100% is applied to Base case and Downside scenarios.

2023

Amount RO 000's

Scenarios	**ECL for**				**Total**
	Loans and advances (RO 000's)	**Islamic financing receivables (RO 000's)**	**Investment securities carried at amortised cost (RO 000's)**	**Other Portfolio (RO 000's)**	**(RO 000's)**
Scenarios currently used by Bank	150,128	17,619	45	9,989	177,781
100% Base case scenario	148,651	17,345	41	811	166,848
100% Downside scenario	166,612	20,305	76	1,479	188,472

2022

Amount RO 000's

Scenarios	ECL for				Total
	Loans and advances (RO 000's)	Islamic financing receivables (RO 000's)	Investment securities carried at amortised cost (RO 000's)	Other Portfolio (RO 000's)	(RO 000's)
Scenarios currently used by Bank	161,360	14,441	64	8,146	184,011
100% Base case scenario	162,478	13,654	273.84	811	177,217
100% Downside scenario	180,329	16,399	322.34	1,479	198,529

The above table reveals that in case of 100% downside scenario, the ECL may increase by OMR 22.68 million (2022: 14.516 million) from the current position.

Accounting for modification loss

The Bank have done an extensive exercise on determining the modification loss/gain and has determined that the re-structuring done are in line with CBO guidelines which did not result in de-recognition of financial assets and the modification loss arising from the restructured loan was accounted for within ECL.

As of 31st December 2023, the restructured loans, advances and financing amounts to RO 488.94 million and the stagewise details are as follows:

Classification/Stage As per IFRS-9	**Restructured (RO 000's)**	**ECL (RO 000's)**
Stage 1	**92,368**	**1,585**
Stage 2	**377,564**	**43,165**
Stage 3	**19,003**	**7,700**
Total	**488,935**	**52,450**

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

Impact on the Capital Adequacy

Besides, the Bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. As per the Prudential filter, the Tier II capital of the Bank will comprise of Stage 1 ECL plus portion of Stage 2 ECL. Such portion shall be estimated as under:

- The Stage 2 ECL amount as on 31 December 2019 is considered "Base Year Amount" and the incremental ECL (i.e. Stage 2 ECL at a respective reporting date minus stage 2 ECL as at 31 December 2019) may be considered for Tier 2 capital subject to incremental reduction of 20% ECL every year (80% in 2021, 60% in 2022, 40% in 2023 etc).

The Tier II capital has improved by 0.26% (2022: 0.49%) due to application of above prudential filter.

1. Credit Exposure

The following table sets out the Credit Exposure to customers of the Bank:

(i) Geographical concentrations

	Assets			**Liabilities**		
	Gross loans and financing to banks	**Gross Loans, advances and financing to customers**	**Investment Securities**	**Deposits from customers**	**Due to banks**	**Contingent liabilities**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
31 December 2023						
Sultanate of Oman	**48,510**	**3,969,247**	**434,438**	**3,298,560**	**105,645**	**447,705**
Other GCC countries	**52,932**	**-**	**25,084**	**356**	**351,651**	**100,445**
Europe and North America	**62,911**	**548**	**-**	**236**	**29,370**	**65,608**
Africa and Asia	**63,169**	**-**	**-**	**71**	**19,250**	**61,744**
	227,522	**3,969,795**	**459,522**	**3,299,223**	**505,916**	**675,502**
31 December 2022						
Sultanate of Oman	109,957	3,645,956	469,289	2,883,749	57,331	471,417
Other GCC countries	9,625	-	197	7,171	350,418	83,913
Europe and North America	28,875	696	-	711	27,492	85,541
Africa and Asia	-	-	-	188	137,601	21,877
	148,457	3,646,652	469,486	2,891,819	572,842	662,748

Loan commitment of RO 721.74 million as at 31 December 2023 (31 December 2022: RO 614.94 million) arises from the customers in the Sultanate of Oman.

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

(ii) Customer concentrations

	Gross loans and financing to banks	Gross Loans, advances and financing to customers	Investment Securities	Deposits from customers	Due to banks	Contingent liabilities
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2023						
Personal	**-**	**1,458,267**	**-**	**940,676**	**-**	**-**
Corporate	**227,522**	**1,868,493**	**84,516**	**962,803**	**505,916**	**675,257**
Government	**-**	**643,035**	**375,006**	**1,395,744**	**-**	**245**
	227,522	**3,969,795**	**459,522**	**3,299,223**	**505,916**	**675,502**
31 December 2022						
Personal	-	1,272,216	-	736,352	-	-
Corporate	148,457	1,757,432	61,394	1,054,981	572,842	662,446
Government	-	617,004	408,092	1,100,486	-	302
	148,457	3,646,652	469,486	2,891,819	572,842	662,748

Loan commitment of RO 721.74 million as at 31 December 2023 (31 December 2022: RO 614.94 million) substantially arises from the corporate customers.

(iii) Economic sector concentrations

	Gross loans, advances and financing to customers	Deposits from customers	Contingent Liabilities	Loan Commitment
	RO'000	RO'000	RO'000	RO'000
31 December 2023				
Personal	**1,458,267**	**940,676**	**-**	**265,185**
International trade	**169,097**	**47,680**	**29,564**	**30,747**
Construction	**565,681**	**72,177**	**172,285**	**102,585**
Manufacturing	**228,524**	**126,880**	**37,842**	**41,553**
Wholesale and retail trade	**129,314**	**23,269**	**16,930**	**23,421**
Communication and utilities	**200,777**	**40,410**	**15,382**	**36,507**
Financial services	**246,702**	**40,044**	**266,326**	**44,858**
Government	**15,209**	**1,097,240**	**53,570**	**2,765**
Other services	**447,400**	**154,400**	**39,551**	**81,351**
Others	**508,824**	**756,447**	**44,052**	**92,766**
	3,969,795	**3,299,223**	**675,502**	**721,738**

32 Financial risk management *(continued)*

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

(iii) Economic sector concentrations (continued)

	Gross loans, advances and financing to customers	Deposits from customers	Contingent Liabilities	Loan Commitment
	RO'000	RO'000	RO'000	RO'000
31 December 2022				
Personal	1,272,216	736,352	-	-
International trade	135,825	46,275	32,045	34,457
Construction	457,910	73,650	210,681	87,466
Manufacturing	224,979	155,132	38,589	67,495
Wholesale and retail trade	109,618	11,155	26,107	31,152
Communication and utilities	107,674	83,677	8,715	35,693
Financial services	220,544	100,287	235,323	68,044
Government	134,755	740,172	-	44,699
Other services	553,838	138,128	45,341	159,382
Others	429,293	806,991	65,947	86,551
	3,646,652	2,891,819	662,748	614,939

(iv) Gross credit exposure

	Total gross exposure	
	2023	2022
	RO'000	RO'000
Overdrafts	**139,050**	123,550
Loans	**2,946,503**	2,820,805
Loans against trust receipts	**123,088**	97,069
Bills discounted	**64,800**	31,063
Advance against credit cards	**10,758**	8,669
Islamic Banking Window financing	**685,596**	565,496
Total	**3,969,795**	3,646,652

(v) Geographical distribution of funded exposures:

	Sultanate of Oman	**Other countries**	**Total**
	RO’000	**RO’000**	**RO’000**
31 December 2023			
Overdrafts	**139,050**	**-**	**139,050**
Loans	**2,946,503**	**-**	**2,946,503**
Loans against trust receipts	**122,847**	**241**	**123,088**
Advance against credit cards	**10,758**	**-**	**10,758**
Bills discounted and advances against receivables	**64,493**	**307**	**64,800**
Islamic Banking Window financing	**685,596**	**-**	**685,596**
	3,969,247	**548**	**3,969,795**

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

	Sultanate of Oman RO'000	Other countries RO'000	Total RO'000
31 December 2022			
Overdrafts	123,550	-	123,550
Loans	2,820,805	-	2,820,805
Loans against trust receipts	96,643	426	97,069
Advance against credit cards	8,669	-	8,669
Bills discounted and advances against receivables	30,793	270	31,063
Islamic Banking Window financing	565,496	-	565,496
	3,645,956	696	3,646,652

(vi) Industry type distribution of exposures by major types of credit exposures:

	Overdrafts RO'000	Loans including Islamic financing RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Contingent liabilities RO'000	Loan commitments RO'000
31 December 2023							
Import trade	18,220	74,864	127	4,129	97,340	23,183	29,529
Export trade	1,944	4,604	-	146	6,694	2,748	1,218
Wholesale/retail trade	6,954	99,728	-	6,530	113,212	16,601	23,421
Mining and quarrying	2,035	161,293	-	16	163,344	22,135	31,058
Construction	45,183	218,549	-	39,972	303,704	160,441	102,858
Manufacturing	19,176	138,648	6,561	17,384	181,769	37,337	41,553
Electricity, gas and water	1,003	185,733	-	1,968	188,704	15,382	36,507
Transport and Communication	8,315	173,462	-	556	182,333	1,492	33,705
Financial institutions	4,040	209,668	365	17,147	231,220	266,318	44,858
Services	20,535	338,602	125	15,960	375,222	38,093	81,351
Personal loans	3,640	1,213,350	-	11,834	1,228,824	2,199	265,185
Agriculture and allied Activities	3,657	635	-	6,245	10,537	922	3,907
Government	-	10	-	11,683	11,693	53,570	2,765
Non-resident lending	-	242	306	-	548		100
Others	4,348	812,711	57,316	276	874,651	35,081	23,723
	139,050	**3,632,099**	**64,800**	**133,846**	**3,969,795**	**675,502**	**721,738**

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

(vi) Industry type distribution of exposures by major types of credit exposures: (continued)

	Overdrafts	Loans including Islamic financing	Bills discounted	Others	Total	Contingent liabilities	Loan commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2022							
Import trade	11,225	102,466	1,232	11,541	126,464	26,698	27,027
Export trade	1,349	8,003	-	9	9,361	5,347	2,677
Wholesale/retail trade	5,369	100,912	212	3,125	109,618	26,107	26,854
Mining and quarrying	1,842	92,178	-	15	94,035	811	25,171
Construction	43,923	356,353	16,649	40,436	457,361	210,681	160,241
Manufacturing	20,356	165,989	3,048	33,062	222,455	38,589	58,182
Electricity, gas and water	1,172	181,399	1,407	217	184,195	16,307	51,732
Transport and Communication	7,955	99,618	100	1	107,674	8,715	30,768
Financial institutions	1,255	217,997	1,291	967	221,510	235,323	58,655
Services	7,303	357,814	1,280	3,024	369,421	29,034	85,660
Personal loans	1,326	1,262,540	-	6,332	1,270,198	1,343	-
Agriculture and allied Activities	3,445	9,916	-	6,395	19,756	1,117	3,065
Government	-	134,750	-	5	134,755	-	38,532
Non-resident lending	-	-	-	426	426	-	199
Others	17,030	296,366	5,844	183	319,423	62,676	46,176
	123,550	3,386,301	31,063	105,738	3,646,652	662,748	614,939

(vii) Maximum exposure to credit risk (net of impairment) without consideration of collateral held:

	2023	2022
	RO'000	RO'000
Cash held by custodian and Central Bank balances	**125,931**	142,692
Due from Banks	**227,078**	148,353
Sovereign	**384,142**	398,445
Investment Securities at amortized Cost	**9,989**	9,647
Investment Securities at FVOCI	**19,429**	46,638
Loans and advances	**3,802,048**	3,470,851
Other receivables	**13,944**	20,794
Acceptances	**59,110**	39,996
Total funded net exposure	**4,641,671**	4,277,416
Off-balance sheet items		
Loan commitments / unutilised limits	**719,451**	613,104
Letter of credit/guarantee	**668,279**	656,560
	6,029,401	5,581,005

As at 31 December 2023, the Bank has total gross impaired loans of RO 214.01 million (2022: RO 214.08 million) which includes interest reserved of RO 33.76 million (2022: RO 40.37 million) against principal outstanding of RO 180.32 million (2022: RO 173.71 million) expected credit losses of RO 100.16 million (2022: RO 102.52 million) million have been carried.

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

(viii) Credit Quality Analysis

The financial assets have been segregated into various portfolios like exposure to Banks, Sovereign, Wholesale Banking and Retail customers. Exposure to Retail customer includes personal loans, housing loans and credit cards. Exposure to Wholesale Banking customer includes exposure other than retail and bank exposure.

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms ‘Stage 1’, ‘Stage 2’ and ‘Stage 3’ is included in note 3.3. The following table provides the exposure to financial assets measured at amortized cost & FVOCI. Exposure to financial asset includes outstanding as at 31 December 2023 including loan commitment and financial guarantees:

	Stage 1 RO’000	**Stage 2 RO’000**	**Stage 3 RO’000**	**Total RO’000**
31 December 2023				
Exposure				
Banks and cash held with a custodian	**323,175**	**-**	**-**	**323,175**
Sovereigns	**384,142**	**-**	**-**	**384,142**
Wholesale banking	**2,715,606**	**1,101,586**	**150,686**	**3,967,878**
Retail banking	**1,379,734**	**11,924**	**66,609**	**1,458,267**
Investments	**29,463**	**-**	**-**	**29,463**
Total	**4,832,120**	**1,113,510**	**217,295**	**6,162,925**
Provision for expected credit losses	**16,368**	**61,252**	**100,161**	**177,781**

Explanation of the terms ‘Stage 1’, ‘Stage 2’ and ‘Stage 3’ is included in note 3.3. The following table provides the exposure to non-trading financial assets measured at amortized cost & FVOCI. Exposure to financial asset includes outstanding as at 31 December 2022 including loan commitment and financial guarantees:

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
31 December 2022				
Exposure				
Banks	689,594	-	-	689,594
Sovereigns	398,445	-	-	398,445
Wholesale banking	2,077,857	1,060,905	154,912	3,293,674
Retail banking	1,190,172	19,821	62,223	1,272,216
Investments	56,349	-	-	56,349
Total	4,412,417	1,080,726	217,135	5,710,278
Provision for expected credit losses	15,724	66,108	102,179	184,011

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

(ix) Inputs, assumptions and techniques used for estimating impairment

a. Significant increase in credit risk (SICR)

The assessment of SICR since origination of a financial asset considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking information. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

For retail exposures, significant increase in credit risk is more objective and is estimated at account level. The assessment is done using days past due information as well change in the rating grade of the borrower. The process of identifying the significant increase in credit risk has been automated and based on the days past due or deterioration in the rating grade of the borrower significant increase in credit risk is assessed. For non-retail exposures, the Bank uses both quantitative and qualitative criteria. Under quantitative criteria, Bank uses the days past due parameter or change in the rating grade to assess significant increase in credit risk. Under qualitative criteria, Bank uses various criteria like change in value or quality of collateral, modification of terms including extension of moratorium, deferment of payment, waiver of covenants (restructure), frequent change in senior management, deferment / delay in commencement of commercial operations etc. to assess the significant increase in credit risk.

Incorporation of forward looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 25% probability of occurring. External information considered includes economic data and forecasts published by monetary authorities and selected private-sector forecasters. A comprehensive review is performed at least annually on the design of the scenarios by the Bank’s senior management.

b. Economic variable assumptions

The Bank uses the macroeconomic forecast to convert the Through the Cycle (TTC) PD into Point in Time (PIT) PD. Real GDP growth rate and Oil Revenue to GDP are considered for establishing the relationship with historical non-performing loans (NPLs) data of the banking system, as they were observed to be more statistically significant parameters reflecting the state of economy. The forecast of macro-economic indicators are considered for next 3 years with time lag of 1 year. The macroeconomic indicators used as at 31 December 2022 including the projections used is presented as under:

31 December 2023

Real GDP growth (%)	Present	5.00%	**Oil revenue (%GDP)**	Present	29.42%
	Year 1 Projection	5.50%		Year 1 Projection	28.00%
	Year 2 Projection	1.90%		Year 2 Projection	27.97%
	Year 3 Projection	2.30%		Year 3 Projection	26.20%

Predicted relationships between the macroeconomic indicators, default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 24 years.

31 December 2022

Real GDP growth (%)	Present	12.70%	**Oil revenue (%GDP)**	Present	25.97%
	Year 1 Projection	5.60%		Year 1 Projection	33.35%
	Year 2 Projection	2.70%		Year 2 Projection	28.77%
	Year 3 Projection	2.50%		Year 3 Projection	26.35%

32 Financial risk management *(continued)*

(ix) Inputs, assumptions and techniques used for estimating impairment *(continued)*

b. Economic variable assumptions *(continued)*

The following tables shows estimate of the ECL on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at 31 December 2023, with 100% probability of happening each scenario.

Sensitivity of ECL estimates on non-impaired loans (excluding ECL on unutilised loans and interest receivables)	ECL (RO million)	Impact on ECL due to Sensitivity (RO million)
Scenario weighted ECL under IFRS 9 (Actual Estimate)**	78	-
Sensitivity:		
ECL if only Upside case happens - 100% probability	61	(17)
ECL if only Base case happens - 100% probability	76	(2)
ECL if only Downside case happens - 100% probability	101	23

The following tables shows estimate of the ECL on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at 31 December 2022, with 100% probability of happening each scenario.

Sensitivity of ECL estimates on non-impaired loans (excluding ECL on unutilised loans and interest receivables)	ECL (RO million)	Impact on ECL due to Sensitivity (RO million)
Scenario weighted ECL under IFRS 9 (Actual Estimate)**	81	-
Sensitivity:		
ECL if only Upside case happens - 100% probability	63	(18)
ECL if only Base case happens - 100% probability	76	(6)
ECL if only Downside case happens - 100% probability	97	16

** for computation of ECL (i.e. actual estimates), Bank considers three scenario viz. base case, upside case and downside case with weightage of 50%, 25% & 25% respectively.

c. Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Retail portfolios

(i) GDP, given the significant impact it has on mortgage collateral valuations; and

(ii) Oil price index, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Wholesale portfolios

(i) GDP, given the significant impact on companies' performance and collateral valuations; and

(ii) Oil Price Index, given its impact on companies' likelihood of default.

32 Financial risk management *(continued)*

(ix) Inputs, assumptions and techniques used for estimating impairment *(continued)*

d. Loss allowance

The following table presents the ECL for non-performing loans i.e. Exposure under Stage 3.

	No. of borrowers	Exposure RO'000	Reserved interest RO'000	Net Exposure RO'000	ECL RO'000	% of ECL RO'000
31 December 2023						
Wholesale banking	**636**	**148,458**	**20,800**	**127,658**	**61,072**	**47.84%**
Retail banking	**3,088**	**65,555**	**12,958**	**52,597**	**39,089**	**74.32%**
Total	**3,724**	**214,013**	**33,758**	**180,255**	**100,161**	**55.57%**
31 December 2022						
Wholesale banking	786	150,874	26,450	124,424	65,564	52.69%
Retail banking	3,420	63,205	13,916	49,289	36,615	74.29%
Total	4,206	214,079	40,366	173,713	102,179	58.82%

The Banks seeks to recover amounts it is legally owed in full, but which has been partially written off and in 2023 the Bank recovered RO 0.85 million (2022: RO 1.078)

(x) Credit Quality

Credit risk grading

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank has adopted a risk rating framework having eight performing loan grades (including special mention) and three non-performing loan grades. The Bank's internal Risk Rating (RR) risk rates a customer and to associate a default probability to each rating grade. The ratings assist studying the distribution of borrowers, grade wise exposures, transition of credit risk ratings over time, grade wise defaults, Non-Performing Loans (NPL) etc. Risk appetite is also set in terms of how much exposure the Bank expects in various grade bands. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

'High Grade' exposures includes the risk rate of 1-3 which includes the exposures with good to excellent business credit quality, good to exceptional capacity for timely fulfilment of the financial obligation and negligible or low probability of default and/or low levels of expected loss.

'Standard Grade' exposures includes the risk rate of 4-5 which includes the exposures of acceptable to fair credit quality, satisfactory capacity for timely fulfilment of the financial obligation. These exposures carry average to marginally acceptable risk.

'Satisfactory Grade' exposures includes the risk rate of 6-8 which includes the exposures with comparatively weak or less acceptable credit quality. The exposures carry high risk, caution and special mention category. Projected repayment capacity is strained and prospects may deteriorate at some future date. These reflect either weak operating environment or operations reflect weakness.

'Non-performing' exposures have been assessed as impaired and includes the risk rate of 9 to 11. These also include retail accounts that are delinquent by more than 90 days, unless individually they have been assessed as not impaired; and renegotiated loans that have met the requirements to be disclosed as impaired and have not yet met the criteria to be returned to the unimpaired portfolio.

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

An analysis of credit quality of gross exposures as at 31 December 2023 and changes in gross exposure balances from 1 January 2022 to 31 December 2023 is set out in the following tables by class of financial assets

31 December 2023:

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost				
High Grade	**75,635**	**-**	**-**	**75,635**
Standard Grade	**96,844**	**-**	**-**	**96,844**
Satisfactory Grade	**55,043**	**-**	**-**	**55,043**
Total	**227,522**	**-**	**-**	**227,522**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate Loans and advances / Islamic financing receivables at Amortised cost				
High Grade	**468,404**	**39,581**	**-**	**507,985**
Standard Grade	**1,045,544**	**421,042**	**-**	**1,466,586**
Satisfactory Grade	**25,953**	**362,546**	**-**	**388,499**
Non-performing	**-**	**-**	**148,458**	**148,458**
Total	**1,539,901**	**823,169**	**148,458**	**2,511,528**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade	**1,200,217**	**-**	**-**	**1,200,217**
Standard Grade	**154,876**	**2,101**	**-**	**156,977**
Satisfactory Grade	**26,001**	**9,517**	**-**	**35,518**
Non-performing	**-**	**-**	**65,555**	**65,555**
Total	**1,381,094**	**11,618**	**65,555**	**1,458,267**

* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

31 December 2023

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Investment securities at FVOCI				
High Grade	132,816	-	-	132,816
Standard Grade	21,005	-	-	21,005
Satisfactory Grade	-	-	-	-
Total	153,821	-	-	153,821

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade	290,159	-	-	290,159
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	290,159	-	-	290,159

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised cost				
High Grade	35,585	856	-	36,441
Standard Grade	16,689	4,338	-	21,027
Satisfactory Grade	8	1,634	-	1,642
Total	52,282	6,828	-	59,110

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Loan commitments				
High Grade	214,343	23,894	-	238,237
Standard Grade	351,488	83,776	-	435,264
Satisfactory Grade	3,618	44,619	-	48,237
Total	569,449	152,289	-	721,738

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Letter of credit and guarantees*				
High Grade	259,284	2,445	-	261,729
Standard Grade	285,844	81,619	-	367,463
Satisfactory Grade	17,159	26,095	-	43,254
Non-performing	-	-	3,056	3,056
Total	562,287	110,159	3,056	675,502

* includes Corporate & SME , Retail and Banks

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

31 December 2022:

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost				
High Grade	63,108	-	-	63,108
Standard Grade	30,074	-	-	30,074
Satisfactory Grade	55,365	-	-	55,365
Total	148,457	-	-	148,457

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate Loans and advances / Islamic financing receivables at Amortised cost				
High Grade	350,200	35,082	-	385,282
Standard Grade	1,073,244	323,702	-	1,396,946
Satisfactory Grade	44,448	397,066	-	441,514
Non-performing	-	-	150,694	150,694
Total	1,467,892	755,850	150,694	2,374,436

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade	1,056,193	-	-	1,056,193
Standard Grade	115,225	2,376	-	117,601
Satisfactory Grade	17,719	17,318	-	35,037
Non-performing	-	-	63,385	63,385
Total	1,189,137	19,694	63,385	1,272,216

* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Cash held by a custodian				
High Grade	5,316	-	-	5,316
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Non-performing	-	-	-	-
Total	5,316	-	-	5,316

32 Financial risk management *(continued)*

B. Credit risk *(continued)*

(x) Credit Quality *(continued)*

31 December 2022

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Investment securities at FVOCI				
High Grade	155,427	-	-	155,427
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	155,427	-	-	155,427

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade	313,278	-	-	313,278
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	313,278	-	-	313,278

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised cost				
High Grade	28,640	177	-	28,817
Standard Grade	5,511	3,901	-	9,412
Satisfactory Grade	74	1,693	-	1,767
Total	34,225	5,771	-	39,996

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Loan commitments				
High Grade	131,355	53,984	-	185,339
Standard Grade	281,101	99,030	-	380,131
Satisfactory Grade	3,660	45,809	-	49,469
Total	416,116	198,823	-	614,939

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Letter of credit and guarantees*				
High Grade	236,725	4,417		241,142
Standard Grade	301,736	57,621		359,357
Satisfactory Grade	20,643	38,550		59,193
Non-performing	-	-	3,056	3,056
Total	559,104	100,588	3,056	662,748

* includes Corporate & SME , Retail and Banks

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(xi) Distribution of impaired loans

The following table presents the distribution of impaired loans, past due and not past due loans by type of industry:

	Performing loans	Non-performing loans	Expected Credit Loss for Stage 1 & 2 Exposure	Expected Credit Loss for Stage 3 Exposure	Interest reserve	Expected Credit Loss during the year	Advances written off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2023							
Import trade	**147,185**	**15,215**	**1,666**	**6,157**	**2,599**	**1,326**	**112**
Export trade	**6,543**	**154**	**93**	**33**	**18**	**55**	**-**
Wholesale/retail trade	**118,396**	**10,918**	**3,702**	**5,474**	**4,575**	**292**	**-**
Mining and quarrying	**165,686**	**5,124**	**353**	**2,566**	**710**	**1,395**	**-**
Construction	**463,655**	**102,026**	**14,774**	**41,874**	**12,038**	**4,620**	**35,764**
Manufacturing	**222,187**	**6,337**	**5,381**	**2,603**	**758**	**1,867**	**-**
Electricity, gas and water	**199,552**	**1,225**	**578**	**510**	**45**	**1,640**	**-**
Transport and communication	**185,346**	**18**	**508**	**7**	**1**	**1,514**	**-**
Financial institutions	**246,701**	**1**	**3,296**	**-**	**-**	**2,015**	**-**
Services	**444,936**	**2,464**	**24,066**	**520**	**291**	**3,654**	**776**
Personal loans	**1,393,192**	**65,229**	**8,860**	**39,478**	**13,420**	**11,912**	**1,026**
Agriculture and allied activities	**21,392**	**94**	**153**	**-**	**-**	**175**	**-**
Government	**15,209**	**-**	**226**	**-**	**-**	**124**	**-**
Non-resident lending	**548**	**-**	**-**	**-**	**-**	**4**	**-**
Others	**125,254**	**5,208**	**5,371**	**(502)**	**568**	**1,067**	**1,063**
	3,755,782	**214,013**	**69,027**	**98,720**	**35,023**	**31,660**	**38,741**

32 Financial risk management *(continued)*

B. Credit risk *(continued)*

(xi) Distribution of impaired loans (continued)

	Performing loans	Non-performing loans	Expected Credit Loss for Stage 1 & 2 Exposure	Expected Credit Loss for Stage 3 Exposure	Interest reserve	Expected Credit Loss during the year	Advances written off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2022							
Import trade	117,222	9,242	1,774	2,852	1,756	597	3
Export trade	9,196	165	148	51	15	102	-
Wholesale/retail trade	98,862	10,755	4,611	4,978	2,453	1,863	4
Mining and quarrying	89,283	4,751	706	2,152	342	(296)	-
Construction	352,721	105,190	8,798	49,135	18,147	12,196	-
Manufacturing	219,415	5,137	3,916	1,957	377	1,506	-
Electricity, gas and water	256,011	-	438	-	-	(604)	-
Transport and communication	107,356	318	704	161	97	(26)	-
Financial institutions	220,274	1	2,794	-	-	1,906	-
Services	367,750	1,893	14,787	734	672	5,743	14
Personal loans	1,200,941	71,268	8,815	38,522	15,164	3,397	-
Agriculture and allied activities	19,663	93	78	25	7	(33)	546
Government	134,755	-	17,040	-	-	7,625	65
Non-resident lending	696	-	-	-	-	-	-
Others	238,428	5,266	10,265	360	1,336	(711)	234
	3,432,573	214,079	74,874	100,927	40,366	33,265	866

The following table presents the distribution of impaired loans and gross loans by geographical distribution:

	Exposure to Stage 1 & 2	**Exposure to Stage 3**	**Stage 1 & 2 ECL**	**Stage 3 ECL**	**Interest reserve**	**ECL during the year**	**Advances written off during the year**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
31 December 2023							
Sultanate of Oman	**3,755,234**	**214,013**	**69,027**	**98,720**	**35,023**	**31,660**	**38,741**
Other countries	**548**	**-**	**-**	**-**	**-**	**-**	**-**
	3,755,782	**214,013**	**69,027**	**98,720**	**35,023**	**31,660**	**38,741**
31 December 2022							
Sultanate of Oman	3,431,877	214,079	74,874	102,179	40,366	33,265	866
Other countries	696	-	-	-	-	-	-
	3,432,573	214,079	74,874	102,179	40,366	33,265	866

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(xi) Distribution of impaired loans *(continued)*

Analysis of impairment and collateral

(a) An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	2023	2022
	RO'000	RO'000
Property	**1,151,179**	727,505
Guarantee	**1,408,545**	1,341,147
Others	**993,567**	922,625
	3,553,291	2,991,277

(b) An estimate of the fair value of collateral and other security enhancements held against impaired financial assets is shown below:

	2023	2022
	RO'000	RO'000
Property	**77,543**	69,833
Others	**1,149**	440
	78,692	70,323

The Bank has a financial asset of RO 4,028 million (2022: RO 3,686 million) against collateral or other security enhancements held.

The Bank holds above collaterals against certain of its credit exposures. Value of property held as collateral is obtained from external valuations held.

B. Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities that are settled by delivering cash or another financial asset as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

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

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach the Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and the Bank strictly adheres to the CBO set limit of 15%, 20% and 25% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year. Under stock approach, the Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date.

The treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time make optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provide the liquidity gap to Treasury Department to meet liquidity gaps.

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

Maturity profile of assets and liabilities

	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2023	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	125,931	-	-	-	-	125,931
Loans and advances to customers*	380,783	370,019	211,973	658,872	2,143,937	3,765,584
Loans and advances to banks	121,133	50,120	55,825	-	-	227,078
Investments securities	8,285	56,588	23,767	299,022	71,815	459,477
Other assets	44,542	-	11,751	-	20,349	76,642
Total Assets Funded	680,674	476,727	303,316	957,894	2,236,101	4,654,712
Spot and Forward Purchases (notional value)	175,088	269,016	84,773	149,267	-	678,144
Total Assets Funded and Non Funded	855,762	745,743	388,089	1,107,161	2,236,101	5,332,856
Future Interest cash inflows	14,424	75,617	62,693	378,076	319,333	850,143
Due to banks	168,410	106,506	19,250	211,750	-	505,916
Deposits from customers*	279,029	687,742	579,395	965,510	787,547	3,299,223
Other liabilities	53,376	20,660	9,874	10,215	53,579	147,704
Total liabilities	500,815	814,908	608,519	1,187,475	841,126	3,952,843
Spot and Forward Purchases (notional value)	176,235	268,421	84,690	148,569	-	677,915
Loan commitments	721,738	-	-	-	-	721,738
Letter of credit	87,730	-	-	-	-	87,730
Guarantees and performance bonds	587,772	-	-	-	-	587,772
Total Liabilities Funded and Non Funded	2,074,290	1,083,329	693,209	1,336,044	841,126	6,027,998
Future Interest cash outflows	9,159	50,255	56,229	147,923	243,238	506,804
Cumulative Liabilities	2,074,290	3,157,619	3,850,828	5,186,872	6,027,998	
Gap	(1,218,528)	(337,586)	(305,120)	(228,883)	1,394,975	
Cumulative Gap	(1,218,528)	(1,556,114)	(1,861,234)	(2,090,117)	(695,142)	

*The overdraft amounts included in loans and advances and the current and savings deposits in customer deposits are based on behaviorial analysis which are inline with the regulatory requirements. Below table is based on the contractual maturities. Where there are no contractual maturities, the balances are considered as "Due on demand".

	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
Loans and advances to customers	494,354	358,065	200,019	599,097	2,114,049	3,765,584
Deposits from customers	1,614,132	413,447	391,236	685,498	194,910	3,299,223

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

Maturity profile of assets and liabilities

	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2022	RO’000	RO’000	RO’000	RO’000	RO’000	RO’000
Cash and balances with Central Bank of Oman	176,117	-	-	-	500	176,617
Loans and advances to customers	156,232	424,390	144,228	718,245	1,987,391	3,430,486
Loans and advances to banks	108,166	40,187				148,353
Investments FVTPL	-	717	-	-	-	717
Investments FVOCI Debt Instrument	-	22,134	15,926	71,592	31,812	141,464
Investments FVOCI-Equity	-	-	-	-	13,963	13,963
Investments at amortized cost	3,867	36,014	10,014	186,798	76,585	313,278
Other assets	5,316	-	3,484	-	56,701	65,501
Total Assets Funded	449,698	523,442	173,652	976,635	2,166,952	4,290,379
Spot and Forward Purchases (notional value)	165,706	403,838	82,416	152,199	-	804,160
Total Assets Funded and Non Funded	615,404	927,280	256,068	1,128,834	2,166,952	5,094,539
Future Interest cash inflows	17,188	87,546	81,355	472,981	384,821	1,043,891
Due to banks	167,435	116,658	19,250	269,499	-	572,842
Deposits from customers	330,130	618,975	471,905	907,207	563,602	2,891,819
Other liabilities	67,636	524	524	5,247	61,663	135,594
Subordinated loans	-	-	-	-	-	-
Total liabilities	565,201	736,157	491,679	1,181,953	625,265	3,600,255
Spot and Forward Purchases (notional value)	177,087	393,567	80,320	152,224	-	803,198
Loan commitments	614,939	-	-	-	-	614,939
Letter of credit	88,961	-	-	-	-	88,961
Guarantees and performance bonds	573,787	-	-	-	-	573,787
Total Liabilities Funded and Non Funded	2,019,975	1,129,724	571,999	1,334,177	625,265	5,681,140
Future Interest cash outflows	4,119	49,829	38,888	114,248	96,118	303,202
Cumulative Liabilities	2,019,975	3,149,699	3,721,698	5,055,875	5,681,140	
Gap	(1,404,571)	(202,444)	(315,931)	(357,542)	1,541,687	
Cumulative Gap	(1,404,571)	(1,607,014)	(1,922,945)	(2,280,487)	(738,800)	

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. As per CBO guidelines LCR should be minimum 100% on an ongoing basis to be maintained at all times by the Bank. The Bank is in compliance of the regulatory limit of LCR as at 31 December 2023, with LCR of 146.97% (2022: 107.71%).

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. It is effective January 2018, with a minimum ratio of 100% as per the regulatory guidance. The Bank is meeting the regulatory limit of NSFR as at 31 December 2023, with a NSFR of 108.22% (2022: 107.95%).

C. Market risk

Market risk includes currency risk, interest rate risk and equity price risk.

I. Currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar. Rial Omani is effectively pegged to US Dollar. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank. The foreign currency exposures are given below:

Foreign currency exposures

	2023 **RO'000**	2022 RO'000
Net assets denominated in US Dollars	**9,820**	47,815
Net assets denominated in UAE Dirham (AED)	**61**	1,934
Net assets denominated in other foreign currencies	**1,618**	3,363
	11,499	53,112

II. Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities are reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Board Risk Committee. Impact on earnings due to interest rate risk in the banking book is as follows:

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. **Interest rate risk** *(continued)*

Impact on earnings due to interest rate risk in the banking book

	+ or – 1%		+ or – 2%	
	2023	2022	**2023**	2022
	RO'000	RO'000	**RO'000**	RO'000
Omani Rials	**7,466**	4,419	**14,932**	8,839
US Dollars	**3,817**	4,179	**7,633**	8,357
Others currencies	**30**	214	**60**	428
	11,313	8,812	**22,625**	17,624

There is no interest rate risk on trading book of the Bank.

The impact on statement in changes of equity due to interest rate risk in the banking book is provided as under:

	+ or – 1%		+ or – 2%	
	2023	2022	**2023**	2022
	RO'000	RO'000	**RO'000**	RO'000
Impact on Equity in absolute terms	**57,511**	47,003	**115,023**	94,006

Effect of IBOR reform

Reform and replacement of various inter-bank offered rates (‘IBORs’) has been transitioned to the relevant alternative benchmarks after 30 June 2023. The Bank has also enhanced its IT systems and internal processes which ensured smooth transition from IBOR to alternative benchmark interest rates.

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. **Interest rate risk** *(continued)*

Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. The Bank manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

	Effective average interest rate	Due on demand and within 30 days	Due within 1 to 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-interest bearing	Total
31 December 2023	**%**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	0.01%	30,800	-	-	-	-	95,131	125,931
Investment securities	5.50%	4,000	19,064	23,767	299,021	71,815	41,810	459,477
Loans, advances and financing to banks	4.36%	77,426	50,120	55,825	-	-	43,707	227,078
Loans, advances and financing to customers	6.06%	716,304	958,234	394,738	646,886	1,049,422	-	3,765,584
Other assets		-	-	-	-	-	80,578	80,578
Total Assets		828,530	1,027,418	474,330	945,907	1,121,237	261,226	4,658,648
Due to banks	6.46%	286,326	199,105	19,250	-	-	1,235	505,916
Deposits from customers*	3.69%	208,127	581,009	903,384	750,771	433,329	422,603	3,299,223
Other liabilities		-	-	-	-	-	147,704	147,704
Total liabilities		494,453	780,114	922,634	750,771	433,329	571,542	3,952,843
On-balance sheet gap		334,077	247,304	(448,304)	195,136	687,908	(310,234)	
Cumulative interest sensitivity gap		334,077	581,381	133,077	328,213	1,016,121	705,887	

*The current and saving deposits are based on behaviorial analysis which are inline with the regulatory requirements. Below table is based on the contractual maturities of the customer deposits. Where there are no contractual maturities, the balances are considered as "Due on demand".

	Due on demand and within 30 days	Due within 1 to 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-interest bearing	Total
Deposits from customers	1,195,087	494,152	436,356	750,771	254	422,603	3,299,223

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. **Interest rate risk** *(continued)*

Interest rate sensitivity gap *(continued)*

	Effective average interest rate	Due on demand and within 30 days	Due within 1 to 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-interest bearing	Total
31 December 2022	%	RO’000	RO’000	RO’000	RO’000	RO’000	RO’000	RO’000
Cash and balances with Central Bank of Oman	0.10%	-	-	-	-	-	176,617	176,617
Investments securities	5.20%	3,867	58,096	25,940	258,390	108,437	14,692	469,422
Loans, advances and financing to banks	2.39%	58,050	40,187	-	-	-	50,116	148,353
Loans, advances and financing to customers	5.87%	156,232	424,390	144,228	718,245	1,987,391	-	3,430,486
Other assets	-	-	-	3,484	-	58,381	3,636	65,501
Total Assets		218,149	522,673	173,652	976,635	2,154,209	245,061	4,290,379
Due to banks	5.52%	260,307	312,352	-	-	-	183	572,842
Deposits from customers	2.75%	218,123	423,839	725,955	670,842	518,130	334,930	2,891,819
Other liabilities	-	-	-	-	-	-	135,594	135,594
Subordinated loan	-	-	-	-	-	-	-	-
Total liabilities		478,430	736,191	725,955	670,842	518,130	470,707	3,600,255
On-balance sheet gap		(260,281)	(213,518)	(552,303)	305,793	1,636,079	(225,646)	
Cumulative interest sensitivity gap		(260,281)	(473,799)	(1,026,102)	(720,309)	915,770	690,124	

Other items which are excluded form the above table are expected to be realised or settled after 12 months.

I. Investment Price risk

Bank is exposed to the volatility in the prices of the securities held under equity and debt portfolio. Equity and debt investments held are for strategic/long term rather than for trading purposes and hence, the Bank does not hold trading positions in equity and debt investments. However the Bank’s portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against investment revaluation reserve in shareholder’s equity and for impaired investments.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity and debt risk exposure.

If there is adverse impact of 5% on equity investment portfolio, the value of the portfolio may decrease by RO 1.106 million (2022: decrease by RO 0.338 million).

If price for unlisted equity and debt instruments had been 5% lower:

The financial statements include holdings in unlisted shares and bonds which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% lower / higher while all other variables were held constant, the carrying amount of the unlisted shares and bonds would decrease / increase by RO 0.07 million (2022: decrease / increase by RO 0.07 million).

32 Financial risk management *(continued)*

D. Operational risk

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events leading to financial/ non-financial losses for the Bank. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on Banking Supervision (BCBS), operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Board Risk Committee (BRC), a sub-committee of the Board, drives the implementation of the risk management framework, approved by the Board, at the apex level. The BRC ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of the Bank's operations and also ensures implementation of Central Bank of Oman's guidelines on Risk Management/Basel II/Basel III and internationally accepted best practices in the area of risk management including Operational risk management. Management Risk Committee (MRC), comprising of Senior Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2023, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversees the various operational functions of the Bank.

Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. The Bank has also set up Operational Risk Management Software to aid assessment of operational risk as well as collection and analysis of operational losses and key risk indicators.

Business Continuity Planning (BCP)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. Bank has adopted Business Continuity / Disaster Recovery Plan with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah entity. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/ Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

- Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.

- The Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.

- The Bank-wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipment's, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.

32. Financial risk management *(continued)*

D. Operational risk *(continued)*

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact. RMD in association with business units has been able to complete the RCSA exercise for all the departments and branches of the conventional banking. During RCSA exercise, processes in various departments were reviewed from operational risk point of view and wherever high risk events were identified, the extant controls were reviewed.

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks. KRIs of all the departments have been identified and are being monitored on a monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on a regular basis and is presented to the Management and Board level committees.

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

- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.

- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has put in place Internal Capital Adequacy Assessment Process (ICAAP) with an objective to explain the Risk policies adopted, Risk policy principles, Target risk structure and Capital planning, the process of assessing the capital adequacy for all the three risks viz., Credit Risk, Market Risk and Operational Risk, Specific assessment procedures for all material risks like interest rate risk in banking book, reputational risk, credit concentration risk etc, the process of Internal Control Mechanism and the stress testing methodologies adopted by the Bank.

As a part of capital planning process, ICAAP provides a detailed assessment of its current capital adequacy, and also project future capital requirement to meet the regulatory capital adequacy ratios in line with approved business plans. The process covers a forward looking plan for the next 4 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Bank’s risk profile. It is also expected that the establishment of ICAAP in the Bank will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. ICAAP is approved by the Board of Directors through Board Risk Committee. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The capital planning is reviewed on half yearly basis and the entire ICAAP document is updated at least annually for a forward-looking planning period of 4 years.

In order to determine the Bank’s capability to withstand adverse conditions, in addition to the base case, scenario and sensitivity analysis is also carried out. The scenario analysis entails boom in the economy & rise in oil prices, Decline in GDP due to economic downturn or due to decline in oil prices and capital adequacy sensitivity due to increase & decrease in growth of loans and advances. Besides this, Bank also conducts stress testing to assess the potential impact of the stress situations on the Bank’s earnings & capital position and enable the Bank to understand its risk profile & adjusting it in accordance with the risk appetite.

In December 2023, the additional Perpetual securities (AT1) of OMR 40 million were replaced with new OMR 40 million Perpetual securities listed in the Muscat Stock Exchange.

33. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year. As per CBO guidelines, the Bank needs to maintain capital adequacy ratio (CAR) at a minimum of 12.25% (including the capital conservation buffer) as at 31 December 2023. CBO reduced the CAR from 13.5% (including the capital conservation buffer) with effect from 1 January 2019, however amid COVID-19 situation, Capital Conservation Buffer (CCB) was lowered by 50% from 2.5% to 1.25% with effective from 18 March 2020, bringing the overall CAR requirement to 12.25%.

The capital base of the Bank consists of debt, which includes borrowings disclosed in note 15, and equity attributable to shareholders of the Bank comprising issued share capital, share premium, reserves and retained earnings and Perpetual Tier I Capital securities, as disclosed in notes 16 to 19.

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2023 is 17.48% (2022: 18.90%).

	31-Dec-23	31-Dec-22
	RO'000	RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	**299,635**	299,635
Legal reserve	**71,831**	67,955
Share premium	**95,656**	95,656
Special reserve	**16,988**	16,988
Retained earnings	**57,424**	57,111
CET I/Tier I Capital	**541,534**	537,345
Additional Tier I regulatory adjustments:		
Deferred tax assets	**(6,209)**	(6,127)
Negative investment revaluation reserve	**(4,017)**	(6,615)
Total CET 1 capital	**531,308**	524,603
Additional Tier I capital (AT1)	**155,500**	155,500
Total Tier 1 Capital (T1=CET1+AT1)	**686,808**	680,103
TIER II CAPITAL		
Investment revaluation reserve	**1,564**	1,006
General provision	**26,989**	34,226
Total Tier II capital	**28,553**	35,232
Total eligible capital	**715,361**	715,335
Risk weighted assets		
Banking book	**3,751,112**	3,465,673
Trading book	**82,854**	70,428
Operational risk	**257,700**	248,375
Total	**4,091,666**	3,784,476
Total Tier 1 Capital (T1=CET1+AT1)	**686,808**	680,103
Tier II capital	**28,553**	35,232
Total regulatory capital	**715,361**	715,335
Common Equity Tier 1 ratio	**12.99%**	13.86%
Tier I capital ratio	**16.79%**	17.97%
Total capital ratio	**17.48%**	18.90%

The Bank has complied with all externally imposed capital requirements as at 31 December 2023 and 31 December 2022.

The Bank has retasted prior year comparative capital adequacy calculation to rectify certain errors in computing the risk weights mainly on exposure to government entities and loans against commercial properties. This has resulted in the increase of capital adequacy ratio from 17.61% to 18.90%.

34 Segmental information

The Bank is organised into four main business segments:

1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products;
3) Treasury and investments;
4) Islamic Banking

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment which are included in “Treasury and investments” segment. Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income or expense between the business segments. Segment total revenue presented in the table below is the total Interest income, income from Islamic financing/investments, net fees and commission income and other operating income.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position. The profit for the period also includes inter segment revenues

In 2022, certain enhancements were carried in the segmental performance reporting to facilitate better monitoring and management review and accordingly, Cost allocation mechanism was also reviewed and revised in accordance with management guidance. Proposed changes in cost allocation have been applied for the current year period .

31 December 2023	**Retail banking**	**Corporate banking**	**Treasury and investments**	**Islamic Banking**	**Intersegment**	**Total**
	RO’000	**RO’000**	**RO’000**	**RO’000**	**RO’000**	**RO’000**
Segment operating revenues	**31,118**	**55,652**	**5,751**	**-**	**(1,769)**	**90,752**
Net income from Islamic financing	**-**	**-**	**-**	**18,299**	**1,769**	**20,068**
Other revenues	**8,859**	**9,539**	**10,266**	**4,599**	**-**	**33,263**
Segment operating revenues	**39,977**	**65,191**	**16,017**	**22,898**	**-**	**144,083**
Operating expenses including depreciation	**(32,767)**	**(20,335)**	**(4,346)**	**(11,200)**	**-**	**(68,648)**
Net Impairment loses on financial assets	**(2,168)**	**(26,072)**	**(365)**	**(3,055)**	**-**	**(31,660)**
Profit from operations after provision	**5,042**	**18,784**	**11,306**	**8,643**	**-**	**43,775**
Tax expenses	**(541)**	**(2,016)**	**(1,164)**	**(1,296)**	**-**	**(5,017)**
Profit for the period	**4,501**	**16,768**	**10,142**	**7,347**	**-**	**38,758**
Segment assets	**1,295,000**	**2,145,503**	**773,505**	**835,788**	**(159,264)**	**4,890,532**
Less: Impairment allowance	**(58,588)**	**(126,073)**	**(442)**	**(19,632)**		**(204,735)**
Total segment assets	**1,236,412**	**2,019,430**	**773,063**	**816,156**	**(159,264)**	**4,685,797**
Segment Liabilities	**708,552**	**2,140,501**	**546,836**	**708,149**	**(159,264)**	**3,944,774**
Add: Impairment allowance	**2**	**7,048**	**756**	**263**		**8,069**
Total segment Liabilities	**708,554**	**2,147,549**	**547,592**	**708,412**	**(159,264)**	**3,952,843**

Substantially income generated by the Bank and the non-current assets arise from the Sultanate of Oman.

34 Segmental information *(continued)*

31 December 2022	Retail banking	Corporate banking	Treasury and investments	Islamic Banking	Intersegment	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Segment operating revenues	34,404	58,729	10,047	-	(1,224)	101,956
Net income from Islamic financing	-	-	-	20,472		20,472
Other revenues	6,807	6,746	4,610	2,561	-	20,724
Segment operating revenues	41,211	65,475	14,657	23,033	(1,224)	143,152
Operating expenses including depreciation	(32,017)	(21,276)	(4,952)	(11,439)	-	(69,684)
Net Impairment loses on financial assets	(1,989)	(30,052)	2,028	(3,251)	-	(33,264)
Profit from operations after provision	7,205	14,147	11,733	8,343	(1,224)	40,204
Tax expenses	(1,081)	(2,122)	(1,576)	(1,252)	-	(6,031)
Profit for the period	6,124	12,025	10,157	7,091	(1,224)	34,173
Segment assets	1,157,346	2,178,926	653,805	690,354	(146,745)	4,533,686
Less: Impairment allowance	(58,337)	(142,380)	(108)	(15,529)		(216,354)
Total segment assets	1,099,009	2,036,546	653,697	674,825	(146,745)	4,317,332
Segment Liabilities	611,219	1,827,704	651,102	648,952	(146,745)	3,592,232
Add: Impairment allowance	1	6,925	720	377		8,023
Total segment Liabilities	611,220	1,834,629	651,822	649,329	(146,745)	3,600,255

Substantially income generated by the Bank and the non-current assets arise from the Sultanate of Oman.

35 Dividends – proposed and declared

Considering the market conditions and to preserve the capital through internally generated profits, the Board of Directors of Directors in their meeting held on 28 January 2024 proposed a total cash dividend of 7.75%, (seven and seventy five) baizas per share, total of RO 23.222 million (2022: 5%; RO 14.982 million). This is subject to the Central Bank of Oman and shareholders' approval.

A resolution to approve these distributions will be presented to the shareholders at the Annual General Meeting to be held on 28 March 2024.

During the year, unclaimed dividend amounting to Nil (2022: Nil) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

36 Leases

This note provides information for leases where the Bank is a lessee.

(i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	2023	2022
	RO'000	RO'000
Right-of-use assets		
Leased Premises	**585**	441
Lease liabilities		
Current	**68**	9
Non-current	**461**	348
	529	357

Additions to the right-of-use assets during the 2023 financial year were RO 0.46 million (2022: RO 0.14 million).

(ii) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	2023	2022
	RO'000	RO'000
Depreciation charge of right-of-use assets		
Leased Premises	**282**	513
Interest expense	**32**	26
Expense relating to short-term leases	**1,062**	205

The total cash outflow for leases in 2023 was RO 0.22 million (2022: RO 0.26 million).

(iii) The following table shows the maturity analysis of lease liabilities:

	2023	2022
	RO'000	RO'000
More than 1 year	**461**	367

The Bank leases various offices, storage facilities, and retail space for its branches. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options as described in (iv) below.

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.
The lease payments are discounted using the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

36 Leases (continued)

(iv) The Bank's leasing activities and how these are accounted for

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

Each lease payment is allocated between principle and finance cost. The finance cost is charged to statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

The right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in statement of comprehensive income . Short-term leases are leases with a lease term of 12 months or less. The Bank does not have any Low-value assets as of the respective reporting date.

(v) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Bank. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable by the Bank and by the respective lessor. Extension options are not included in the lease term because it is not reasonably certain that the leases will be extended or not terminated.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

- For leases of premises, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in premises leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption. The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the financial year, the Bank did not revise the lease term as no significant events or changes occurred.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

Registered office and principal place of business:

Bank Dhofar
Central Business District
P.O. Box 1507, Ruwi
PC 112
Sultanate of Oman

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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Sultanate of Oman
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Independent auditors' report

To the Shareholders of Bank Dhofar SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Maisarah Islamic Banking Services (the "Islamic Window"), which comprise the statement of financial position as at 31 December 2023, the statements of comprehensive income, changes in equity, cash flows, and sources and uses of charity fund for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Islamic Window as at 31 December 2023, and results of its operations, changes in owners' equity, its cash flows, and charity fund for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman (the "CBO").

In our opinion, the Islamic Window has also complied with the Islamic Shari'a Principles and Rules as determined by the Shari'a Supervisory Board of the Islamic Window during the year ended 31 December 2023.

Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Islamic Window in accordance with *AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions*, together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Other Matter

The financial statements of the Islamic Window for the year ended 31 December 2022, were audited by another auditor who expressed an unmodified opinion on those financial statements on 2 March 2023.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors are responsible for the Islamic Window's undertaking to operate in accordance with Islamic Shari'a Rules and Principles as determined by the Islamic Window's Shari'a Supervisory Board.

The Board of Directors are also responsible for the preparation and fair presentation of the financial statements in accordance with FAS as modified by CBO, and for such internal control as the Board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- 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 Islamic Window's internal control.

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

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Islamic Window's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Islamic Window to cease to continue as a going concern.

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

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

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

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

7 March 2024

KPMG LLC

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KPMG LLC
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P O Box 641, PC 112
Sultanate of Oman
CR.No: 1358131

Statement of financial position
At 31 December

	Note	**2023** *RO 000*	2022 *RO 000*
Assets			
Cash and balances with Central Bank of Oman	5	**28,725**	14,380
Due from banks and financial institutions	6	**23,344**	13,817
Murabaha and other receivables	7	**29,101**	18,559
Mudaraba financing	8	**7,305**	9,396
Diminishing Musharaka financing	9	**456,454**	374,236
Investments	10	**90,771**	92,542
Wakala	11	**99,371**	75,774
Ijarah Muntahia Bittamleek	12	**62,166**	63,074
Property and equipment	13	**1,319**	651
Intangibles	14	**800**	475
Other assets	15	**16,800**	11,921
Total assets		**816,156**	674,825
Liabilities, quasi equity and owners' equity			
Liabilities			
Current accounts	16	**36,498**	35,455
Qard Hasan from Head office	17	**28,309**	39,405
Other liabilities	18	**16,258**	11,089
Total liabilities		**81,065**	85,949
Quasi equity			
Wakala inter bank deposits	19	**103,525**	54,250
Wakala customer deposits	20	**444,011**	382,597
Equity of investment accountholders	21	**79,810**	54,193
Total quasi equity		**627,346**	491,040
Owners' equity			
Allocated share capital	22	**70,000**	70,000
Investment revaluation reserve		**740**	(526)
Retained earnings		**37,005**	28,362
Total owners' equity		**107,745**	97,836
Total liabilities, quasi equity and owners' equity		**816,156**	674,825
Contingent liabilities excluding financing and capital commitments	31(a)	**27,340**	16,860

The financial statements including notes and other information on pages 9 to 70 were approved by the Board of Directors on 28 January 2024 for issue in accordance with a resolution of Board of Directors and signed on their behalf by:

Chairman

Chief Islamic Banking Officer

Independent auditors report – Pages 1-3.

Statement of comprehensive income
For the year ended 31 December 2023

	Note	**2023** *RO 000*	2022 *RO 000*
Income			
Income from Islamic finances and receivables	24	**37,488**	31,730
Income or gains from investments	25	**4,807**	5,104
Income on Wakala placements		**61**	67
		42,356	36,901
Less:			
Return on equity of investment accountholders before Maisarah's share as Mudarib		**(1,507)**	(988)
Maisarah's share as Mudarib		**746**	489
Return on customer Wakala deposits	26	**(18,569)**	(13,295)
Return on inter bank Wakala deposit		**(4,183)**	(2,197)
		(23,513)	(15,991)
Maisarah's share in income from investment as a Mudarib and Rabul Maal		**18,843**	20,910
Revenue from banking services		**3,817**	1,866
Foreign exchange gain – net		**236**	135
Other revenues		**2**	122
Total revenue		**22,898**	23,033
Staff costs	27	**(6,578)**	(5,957)
General and administrative expenses	28	**(4,096)**	(5,051)
Depreciation and amortisation	13,14,18.2	**(525)**	(431)
Total expenses		**(11,199)**	(11,439)
Net impairment on financial instruments	29.3	**(3,056)**	(3,252)
Profit for the year		**8,643**	8,342

The attached notes on pages 9 to 70 form an integral part of these financial statements.
Independent auditors report – Pages 1-3.

Statement of changes in owners' equity
For the year ended 31 December 2023

	31 December 2023			
	Allocated share capital ***RO 000***	**Investment revaluation reserve** ***RO 000***	**Retained earnings** ***RO 000***	**Total** ***RO 000***
Balance at 31 December 2022	**70,000**	**(526)**	**28,362**	**97,836**
Total comprehensive income for the year				
Net profit for the year	**-**	**-**	**8,643**	**8,643**
Other comprehensive income for the year				
Fair value change on debt investments through equity	**-**	**1,266**	**-**	**1,266**
Total comprehensive income	**-**	**1,266**	**8,643**	**9,909**
Balance as at 31 December 2023	**70,000**	**740**	**37,005**	**107,745**

	31 December 2022			
	Allocated share capital *RO 000*	Investment revaluation reserve *RO 000*	Retained earnings *RO 000*	Total *RO 000*
Balance at 31 December 2021	70,000	(1,911)	20,020	88,109
Total comprehensive income for the year				
Net profit for the year	-	-	8,342	8,342
Other comprehensive income for the year				
Fair value change on debt investments through equity	-	1,385	-	1,385
Total comprehensive income	-	1,385	8,342	9,727
Balance as at 31 December 2022	70,000	(526)	28,362	97,836

Statement of sources and uses of charity fund
For the year ended 31 December 2023

	2023	2022
	RO 000	*RO 000*
Sources of charity funds		
Undistributed charity funds at beginning of the year	**7**	5
Shari'a non-compliant income	**10**	7
Total sources of funds during the year	**17**	12
Uses of charity funds		
Distributed to charity organizations	**(7)**	(5)
Total uses of funds during the year	**(7)**	(5)
Undistributed charity funds at end of the year	**10**	7

The attached notes on pages 9 to 70 form an integral part of these financial statements.
Independent auditors report – Pages 1-3.

Statement of cash flows
For the year ended 31 December 2023

	2023	2022
	RO 000	*RO 000*
Cash flows from operating activities		
Profit for the year	**8,643**	8,342
Adjustments for:		
Depreciation and amortization	**522**	431
Deferred Ijarah cost amortization	**3**	-
Depreciation on Ijarah assets	**5,326**	4,706
Net impairment on financial instruments	**3,056**	3,252
Amortisation of premium / discount on investment	**10**	51
Profit equalisation reserve and Investment risk reserve	**19**	12
Operating profit before changes in operating assets and liabilities	**17,579**	16,794
Operating assets and liabilities:		
Murabaha and other receivables	**(10,680)**	10,398
Ijarah Muntahia Bittamleek assets	**(5,088)**	(26,679)
Proceeds from sale of Ijarah Muntahia Bittamleek assets	**487**	3,790
Diminishing Musharaka financing	**(84,128)**	(40,197)
Mudaraba financing	**1,928**	8,382
Wakala	**(24,391)**	(14,623)
Other asset	**(2,565)**	9,832
Other liabilities	**2,973**	3,407
Qard Hasan from Head Office (operational activities)	**(11,141)**	1,945
Net cash used in operating activities	**(115,026)**	(26,951)
Cash flows from investing activities		
Purchase of investments	**(16,966)**	(11,194)
Proceeds from sale of investments	**20,010**	-
Purchase of property and equipment	**(1,067)**	(352)
Acquisition of intangibles	**(409)**	(267)
Net cash generated from / (used) in investing activities	**1,568**	(11,813)
Cash flows from financing activities		
Current account	**1,043**	12,666
Due to banks	**49,275**	(5,775)
Customer Wakala deposit	**61,414**	32,812
Unrestricted investment accountholders	**25,598**	(10,300)
Net cash generated from financing activities	**137,330**	29,403
(Decrease) / Increase in cash and cash equivalents	**23,872**	(9,361)
Cash and cash equivalents at the beginning of the year	**28,199**	37,560
Cash and cash equivalents at the end of the year	**52,071**	28,199
Cash and cash equivalents at the end of the year comprise:		
Cash and balances with CBO	**28,725**	14,380
Due from banks and financial institutions	**23,346**	13,819
	52,071	28,199

During the year ended 31 December 2023, there were no principal non-cash transactions.

Notes to the financial statements
For the year ended 31 December 2023

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services ("Maisarah") was established in the Sultanate of Oman as window of Bank Dhofar SAOG ("the Bank"). Maisarah's operations commenced on 3 March 2013 and it currently operates through 22 (2022: 10) branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

The principal activities of Maisarah are taking Shari'a compliant demand, saving and time deposit accounts, providing Murabaha finance, Ijarah financing and other Shari'a compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Maisarah's activities are regulated by the Central Bank of Oman ("CBO") and supervised by Shari'a Supervisory Board ("SSB") comprising of five members.

The window is not a separate legal entity. The assets and liabilities presented within the window remain the assets and liabilities of the Bank and are not legally separable from the Bank's other assets and liabilities. As such legally, the assets of the window may be available to the other claims of the Bank. The separate financial statements of Islamic Banking Window have been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of Islamic Banking Regulatory Framework (IBRF) issued by CBO.

2 BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the IBRF issued by CBO, the financial statements of Maisarah Islamic Banking Services are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI") as modified by CBO; the Shari'a rules and principles as determined by the SSB of Maisarah; and the applicable laws and regulations issued by the CBO.

Maisarah complies with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, Maisarah uses the relevant International Financial Reporting Standards ("IFRS") or International Accounting Standards ("IAS") as issued by International Accounting Standards Board ("IASB") provided the application does not lead to a conflict with the principles of Shari'a.

These financial statements pertain to the Maisarah operations only and do not include financial results of the Bank. Statement of changes in restricted investment amount, statement of sources of funds in Zakah and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Maisarah's operations. Complete set of financial statements of the Bank is presented separately.

2.2 Basis of measurement

The financial statements are prepared on a historical cost basis, except for certain investments carried at fair value through equity.

Notes to the financial statements
For the year ended 31 December 2023

2 BASIS OF PREPARATION *(continued)*

2.3 Functional and presentation currency

Items included in Maisarah's financial statements are presented and measured using Rials Omani ("RO") which is the currency of the primary economic environment in which Maisarah operates. All financial information presented in Rial Omani has been rounded to the nearest thousands, unless mentioned otherwise.

2.4 Use of estimates and judgements

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

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

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

2.5 Change in accounting policy

Except for the changes resulting from the adoption of below standard(s) from 1 January 2023, the accounting policies applied in these financial statements are the same as those applied in the last financial statements.

2.5.1 FAS 39 Financial reporting for Zakah

Maisarah has adopted FAS 39 Financial reporting for Zakah effective from the financial periods beginning on January 2023. The objective of this standard is to establish the principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial institution and provides guidance on two main categories of institutions namely "institutions obliged to pay Zakah" and "institutions not obliged to pay Zakah". This standard improves upon and supersedes FAS 9 on "Zakah" and aims at setting out the accounting treatment of Zakah in the books of the institutions, including the presentation and disclosure by an Islamic financial institution. The accounting and financial reporting requirements such as recognition, presentation and disclosure requirements of this standard shall apply to institutions that are obliged to pay Zakah on behalf of certain or all stakeholders. Institutions that are not obliged to pay Zakah shall apply the disclosure requirements of this standard for certain or all stakeholders, as relevant. The adoption of this standard and amendments to standards did not result in changes to previously reported net profit or equity of Maisarah.

2.5.2 FAS 41 Interim Financial Reporting

Maisarah has adopted FAS 41 Interim Financial Reporting effective from the financial periods beginning on January 2023. This standard prescribes the principles for the preparation of condensed interim financial information and the relevant presentation and disclosure requirements, emphasizing the minimum disclosures specific to Islamic financial institutions in line with various financial accounting standards issued by AAOIFI. This standard is also applicable to the institutions which prepare a complete set of financial statements at interim reporting dates in line with the respective FAS's. Upon the adoption of the standard there is no significant impact on the Bank's interim financial statements.

Notes to the financial statements
For the year ended 31 December 2023

2 BASIS OF PREPARATION *(continued)*

2.5 Change in accounting policy *(continued)*

2.5.3 FAS 44 Determining Control of Assets and Business

Maisarah has adopted FAS 44 Determining Control of Assets and Business with immediate effect from the date of issue. This standard prescribes the principles assessing as to whether and when an institution controls an asset or a business, both in the case of underlying asset(s) of a participatory structure, as well as, for the purpose of consolidation of financial statements of subsidiaries. This standard is applicable to the institutions preparing financial statements in line with the requirements of AAOIFI Financial Accounting Standards. As Maisarah has already adopted the FAS 33 for participatory investments earlier in 2022, therefore, upon the adoption of the standard there is no significant impact on Maisarah's financial statements.

2.6 New standards, interpretations and amendments

For the year ended 31 December 2023, Maisarah has adopted all the new and revised amendments in standards issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2023.

Standards issued and effective from 1 January 2023

The Islamic window has applied the following standard(s) and amendment(s) for the first time for its annual reporting period commencing from 1 January 2023:

- FAS 39 – Financial reporting for Zakah

Maisarah is neither obliged to collect and pay Zakah by any law, regulation, constitutional documents, resolution of shareholders, and contractual agreement with any of its stakeholder; nor acts as an agent to pay Zakah on behalf of any of the stakeholders.

- FAS 41 – Interim financial reporting
- FAS 44 – Determining Control of Assets and Business

Standards issued but not effective from 1 January 2023

FAS 1 General Presentation and Disclosures in the Financial Statements

AAOIFI has issued FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. The objective of this standard is to ensure the requirement of Islamic financial institution to publish periodic financial statements to satisfy the common information needs of the users, as described in the conceptual framework. This standard sets out the overall requirements for presentation of financial statements, the minimum requirements for the contents of the financial statements and a recommended structure of financial statements that facilitate faithful presentation in line with Sharia' principles and rules and comparability with the institution's financial statements of previous periods, and the financial statements of other institutions. This standard applies to the financial statements of the institutions desirous to prepare information for Shari'a compliant products and services to meet the information needs of the users of such statements. The standard will be effective from the financial periods beginning on or after 1 January 2024 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

Notes to the financial statements
For the year ended 31 December 2023

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

Standards issued but not effective from 1 January 2023 *(continued)*

FAS 40 Financial Reporting for Islamic Finance Windows

AAOIFI has issued FAS 40 Financial Reporting for Islamic Finance Windows in 2022. The objective of this standard is to establish financial reporting requirements for Islamic financial services offered by conventional financial institutions (in form of Islamic finance windows). This standard applies to all conventional financial institutions providing Islamic financial services through an Islamic finance window. The standard will be effective from the financial periods beginning on or after 1 January 2024 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

FAS 45 Quasi-Equity (Including Investment Accounts)

AAOIFI has issued FAS 45 Quasi-Equity (Including Investment Account) in 2023. The objective of this standard is to establish the principles of financial reporting related to instruments classified as quasi-equity, such as investment accounts and similar instruments invested with the Islamic financial institutions. This standard applies to all instruments that meet the definition of quasi-equity held with an institution in line with the conceptual framework. The standard will be effective from the financial periods beginning on or after 1 January 2026 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

FAS 46 Off-Balance-Sheet Assets Under Management

AAOIFI has issued FAS 46 Off-Balance-Sheet Assets under Management in 2023. The objective of this standard is to establish the principles of financial reporting related to off-balance-sheet assets under management in line with the "AAOIFI Conceptual Framework for Financial Reporting". This standard applies to Islamic financial institutions preparing financial statements in line with the requirements of AAOIFI Financial Accounting Standards with regard to the assets managed in a fiduciary capacity without establishing control except for the participants' Takaful fund / participants' investment fund of a Takaful institution; and an investment fund managed by an institution, being a separate legal entity. The standard will be effective from the financial periods beginning on or after 1 January 2026 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

FAS 47 Transfer of Assets Between Investment Pools

AAOIFI has issued FAS 47 Transfer of Assets Between Investment Pools in 2023. The objective of this standard is to establish the principles of financial reporting that apply in respect of transfer of assets between various investment pools of an Islamic financial institution. This standard applies to all transfers of assets between investment pools related to (and where material, between significant categories of) owners' equity, quasi-equity and off-balance-sheet assets under management of all institutions, irrespective of their type or business model. The assets transferred include both monetary and non-monetary assets. The standard will be effective from the financial periods beginning on or after 1 January 2026 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of profit or loss.

3.2 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances with Central Bank of Oman, due from banks and highly liquid financial assets with original maturities of up to three months, which are subject to insignificant risk of changes in their fair value, and are used by the Maisarah in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.3 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable or religious right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously in accordance with Shari’a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transactions.

3.4 Murabaha and other receivables

Murabaha and Musawama receivables are stated net of deferred profits, any amounts written off and provision for expected credit losses, if any.

In these transactions, the Bank purchases the goods and after taking the possession, sells them to the customer on cost plus profit basis. Unlike Murabaha, it is not necessary to disclosure the profit element to the customer in Musawama.

Murabaha and Musawama receivables are sales on spot / deferred payment terms. The Bank arranges a transaction by buying goods (which represents the object of underlying contract) and then sells these goods to Customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is paid in instalments by the Customer over the agreed period. (Promise made in the Murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the Murabaha to the purchase orderer as obligatory).

Credit card receivable is based on the Islamic financial principle of profit-free Qard Hasan whereby the customer is required to repay the disbursed amount without any profit. In addition, the customer will be charged a monthly fees which could be waived off at the discretion of bank. Other receivable also include travel and education finance which is based on the Islamic financial principle of Service Ijarah where by the Bank purchases the service from service providers and then leases that service to the customer for an agreed service charge.

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.5 Mudaraba

Mudaraba is stated at the fair value of consideration given less any expected credit losses.

Mudaraba is a partnership in profit whereby one party provides capital (Rab al-maal) and the other party provides labour (Mudarib).

In case Mudaraba capital is lost or damaged without misconduct or negligence on the part of Mudarib, then such losses are deducted from Mudaraba capital and are treated as loss to the Bank. In case of termination or liquidation, unpaid portion by Mudarib is recognised as receivable due from Mudarib.

3.6 Diminishing Musharaka

Diminishing Musharaka is a contract, based on *Shirkat-ul-Mulk,* between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to a customer (at carrying value). The use of Bank's share to the customer is based on an Ijarah agreement. Diminishing Musharaka is stated at the fair value of the consideration given, less any expected credit losses.

3.7 Wakala

Wakala is a contract where the Muwakil will enter into the Wakala agreement with the Wakil and establish a contractual and commercial relations between the parties by providing Wakala capital (Ras al Mal) to be utilized in customer's core business. The Wakil provides specialist work using its skill to manage the business. Maisarah enters into the Wakala agreement with the customer both as a principal and as an agent.

3.7.1 Investment Agency as a Principal

Investments made by Maisarah under investment agency instrument are accounted for under the Wakala venture approach based on the premise that the assets change frequently and hence the objective is not actually to hold a single asset through an agent and rather the intention is to maintain a revenue stream through series of investments.

Maisarah initially recognizes the investment made as an investment in Wakala venture at cost, at the time when it is made available to the agent for investment. In case the where the investment is made available to the agent, but the contract is yet to be initiated, such amount is represented as an Advance against investment in Wakala venture.

The investment in a Wakala venture is measured at the end of a financial period at carrying amount and is adjusted to include the investor's share in the profit or loss of the Wakala venture, net of any agent's remuneration payable as of that date. At the end of each period end, impairment in the value of investment in Wakala venture is determined in accordance with impairment policy under 3.10.

3.7.2 Investment Agency as an Agent

Deposits obtained from customers under the investment agency arrangement are recognized under on-balance sheet approach whereby, since the agent (Maisarah) controls the related assets and hence records the assets and related income and expenditure in the books of account.

Maisarah recognizes the deposits obtained under the investment agency arrangement as a quasi-equity instrument for accounting purpose, as the investment agency instrument is subordinated to all liabilities of the agent, but the same is neither perpetual nor convertible to ordinary share capital of the agent.

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.8 Ijarah assets

Bank as lessor: Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled. Depreciation is calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

Bank as lessee: Maisarah initially recognises right-of-use assets, Ijarah liability and deferred Ijarah cost at the commencement date of the lease. The right-of-use asset shall comprise of the prime cost; initial direct cost; and dismantling or decommissioning cost. The gross Ijarah liability shall be initially recognized as gross amount of total Ijarah rentals payable for the Ijarah term. Deferred Ijarah cost is the difference between the gross Ijarah liability and prime cost of right-of-use asset. Maisarah amortizes the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset which coincides with the end of Ijarah term. Gross Ijarah liability is reduced to reflect the Ijarah rentals made. Deferred Ijarah cost is amortized over the Ijarah term on a time proportionate basis.

3.9 Wa’ad

Wa’ad is a unilateral undertaking (constructive obligation) assumed by a party to the arrangement. The unilateral promise is understood to be binding in Shari’a on the individual who makes it unless a legitimate excuse under Shari’a arises and prevents its fulfilment.

Ancillary Wa’ad is a Wa’ad arrangement, where the customer, as a promisor, enters into the Wa’ad arrangement, which is ancillary to the core contracts of Murabaha, Ijarah and Diminishing Musharaka. Product Wa’ad is a Wa’ad arrangement, which is used as a stand-alone Shari’a compliant arrangement in itself. An arrangement where the Bank enters into a foreign exchange forward promise with customers, give rise is recognised as product Wa’ad.

3.10 Investments

Investments comprise of equity-type, debt-type (including monetary and non-monetary), and other investment instruments classified as fair value through equity, fair value through income statement, or at amortised cost.

All investments are initially recognised at the fair value plus transaction costs, except for investments at fair value through statement of income. Transaction costs relating to investment at fair value through income statement are charged to the income statement when incurred.

Fair value through equity

Investments which are held with the objective of both collecting the expected cashflow and selling the investment and represent a non-monetary debt-type instrument are measured at investment at fair value through equity.

Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owner’s equity and equity of investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in the owner’s equity or equity of investment account holders is recognised in the statement of income. Where a reliable measure of fair value for equity instruments is not available, these are measured at cost. Investments carried at fair value through equity are tested for impairment at each reporting period in accordance with impairment policy under 3.10.

Notes to the financial statements

For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.10 Investments *(continued)*

Fair value through income

Investments are measured at investment at fair value through income if it is not measured at fair value through equity or at amortised cost.

Subsequent to acquisition, investments designated at fair value through statement of income are re-measured at fair value with the resultant re-measurement gains or losses recognised in the statement of income taking into consideration the split between the portion related to owners' equity and the portion related to the equity of profit and loss taking stakeholders, including investment accountholders. All other income and expenses arising from these investments are also recognised in the statement of income.

Amortised cost

Investments which are held with the objective of both collecting the expected cashflow till maturity of the instrument and represent a debt-type instrument are measured at amortised cost.

Subsequent to acquisition, investment carried at amortised cost are re-measured at the end of each reporting period. All gains or losses arising from the amortisation process and those arising from de-recognition or impairment of the investment, are recognised in the statement of income. Investments carried at amortised cost are tested for impairment at each reporting period in accordance with impairment policy under 3.10.

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.

- For unquoted investments, fair value is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic window using current profit rates. For investments with similar terms and risk characteristics.

- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

3.11 Impairment

Maisarah has adopted FAS 30 Impairment and credit losses and onerous commitments for the purpose of recognizing impairment allowance. Since all financing, investments and receivables from customers are subject to credit risk, therefore, Maisarah has applied the credit loss approach for determining and measuring the estimated credit loss under different stages of credit risk.

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.11 Impairment *(continued)*

The Islamic window recognises impairment provision for Expected Credit Loss (ECL) on the following financial instruments:

- balances with Central Bank of Oman
- due from banks
- financial assets that are debt-type instruments;
- financing receivables;
- financial guarantee contracts issued
- financing commitments issued; and
- other assets (acceptances and accrued profit).

No ECL is recognised on equity investments.

The Islamic window measures impairment provision at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

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

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

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

Impairment provision is measured using a three-stage approach based on the extent of credit deterioration since origination:

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

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

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.11 Impairment *(continued)*

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

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters / inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Maisarah expects to receive); and

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

However, for unfunded exposures, ECL is measured as follows:

- undrawn financing commitments: at the present value of the difference between the contractual cash flows that are due to the Maisarah if the commitment is drawn down and the cash flows that the Islamic window expects to receive; and

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

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.11 Impairment *(continued)*

Credit impaired financial assets

At each reporting date, Maisarah assesses whether financial assets carried at amortised cost and debt securities carried at fair value through equity are credit-impaired.

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

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or past due event;
- restructuring of a financing by Maisarah on terms that Maisarah would not consider otherwise; or
- it is becoming probable that the customer will enter bankruptcy or other financial reorganisation.

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

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

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

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

Forward-looking information

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

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.11 Impairment *(continued)*

Macroeconomic factors

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

Assessment of significant increase in credit risk

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

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

Presentation of allowance for ECL in the statement of financial position

Allowance for ECL is presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;

- Debt instruments measured at fair value through equity: no provision is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the provision determined is disclosed and recognised in the fair value reserve; and

- Off-balance sheet credit risks include undrawn financing commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.11 Impairment *(continued)*

Definition of default

Maisarah considers a financial asset to be in default when:

- The counterparty is unlikely to pay its credit obligations to the Islamic window in full without recourse by the Islamic window to actions such as realising security held (if any); or

- The counterparty is past due more than 90 days on any material credit obligation to the Islamic window.

Credit facilities like overdrafts, line of credit etc. where no definite repayments are pre-determined are treated as past due if the outstanding balance remains continuously in excess of 10% of the sanctioned / authorized limit or in cases where the outstanding balance in the principal operating account is less than the sanctioned / authorized limit, but there are not enough credits in the account to cover the profit charged or unauthorized drawings have frequently been allowed.

In assessing whether a counterparty is in default, the Islamic window considers indicators that are:

- Qualitative – e.g. breaches of covenant;

- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Islamic window; and

- Based on data developed internally and obtained from external sources.

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

The Islamic window follows the definition of default as stipulated in CBO guidelines (BM 977 and subsequent guidelines issued by CBO).

For accounting of restructuring and modification losses, refer note 34.1.3.

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.12 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write-off the cost of property and equipment, other than freehold land and capital work-in-progress, on straight line basis over their estimated useful lives from the date the asset is brought into use. The estimated useful lives are as follows:

	Years
Furniture, fixtures and equipment	3 - 7
Motor vehicles	3 - 5
Computer hardware	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to statement of profit or loss when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in statement of profit or loss as an expense when incurred.

3.13 Intangibles

Intangible assets, including computer software and core banking system, are amortised over their estimated useful life of 4-10 years and carried net of accumulated amortisation and impairment losses.

3.14 Equity of investment accountholders

Equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Equity of investment accountholders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by Maisarah in arriving at the equity of investment accountholders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from equity of investment accountholders is deducted as Mudarib's share after deducting profit equalisation reserve and the remaining amount is distributed to the equity of investment accountholders after deducting investment risk reserve.

3.15 Profit equalisation reserve

Maisarah appropriates certain amount in excess of the profit to be distributed to equity of investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for equity of investment accountholders.

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.16 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib’s share, to cater against future losses for equity of investment accountholders.

3.17 Provisions

A provision is recognised in the statement of financial position when Maisarah has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

3.18 Earnings prohibited by Shari'a

All the funds mobilised and income earned by Maisarah is from Islamic sources. Maisarah is committed to avoid recognizing any income generated from non-Shari’a compliant sources. Accordingly, all non-Islamic income is credited to a charity account where Maisarah uses these funds for social welfare activities. It includes but not limited to cases/transactions classified by Shari’a as non-compliant income and approved by the SSB to be forfeited, interest paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

3.19 Zakah

The responsibility of payment of Zakah is on individual shareholders and investment accountholders.

3.20 Joint and self-financed

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

3.21 Funds for Maisarah

Maisarah functions with funds specifically available for Islamic Banking activities and there is no commingling of funds with conventional banking financial business.

3.22 Revenue recognition

3.22.1 Murabaha and Musawama receivables

Profit from Murabaha and Musawama receivables are recognised on time apportioned basis from the date of contract. Income related to non-performing accounts is excluded from statement of profit or loss.

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.22 Revenue recognition *(continued)*

3.22.2 Diminishing Musharaka (DM) Financing

Income from Diminishing Musharaka is recognised on time-apportioned basis over the lease term from the Bank's right to receive payment is established. The right to receive payment is established when a customer enters into an Ijarah agreement for acquiring Bank's ownership in the fixed asset. Income related to non-performing accounts is excluded from statement of profit or loss.

3.22.3 Mudaraba financing

Income on Murdaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas the losses are charged to statement of profit or loss on declaration by the Mudarib. Income related to non-performing accounts is excluded from statement of profit or loss.

3.22.4 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation of underlying asset. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from statement of profit or loss.

3.22.5 Wakala financing

Revenues, expenses, gains and losses, arising from investment in Wakala venture as well as the respective, agent's remuneration (including both, fixed fee and variable remuneration) shall be recognised periodically, on a net basis.

3.22.6 Dividends

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

3.22.7 Fee and Commission income

Fee and commission income is recognised when earned.

3.22.8 Maisarah's share as a Mudarib

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

3.22.9 Income allocation

Income from jointly financed activities is allocated proportionately between equity of investment accountholders in accordance to their pre-agreed assigned weightages and shareholders on the basis of the average balances outstanding during the year.

3.22.10 Profit suspension

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.23 Taxation

Maisarah is an Islamic banking window of Bank Dhofar SAOG, hence it is not taxable on a stand-alone basis as per the prevailing tax laws of Oman. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accordingly income tax is accounted for as per IFRS in the financial statements of Bank Dhofar SAOG. Currently, Bank Dhofar SAOG does not allocate income tax charge to Maisarah. The notional tax expense on Maisarah's result for the year at the statutory effective tax rate would amount to RO 1,296 thousand (2022: RO 1,251 thousand). Had the taxation been allocated, following would have been the impact:

	2023	2022
	RO 000	*RO 000*
Profit after tax	**7,347**	7,091
Retained earnings	**29,085**	21,738
Capital adequacy ratio	**14.56%**	15.59%

3.24 Employees' benefits

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

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

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

3.25 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the approval and supervision of the Shari'a Supervisory Board of Maisarah, which meets periodically and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

Sr. No.	**Name**	**Title**
1	Sheikh Abdullah bin Ali bin Aslam Al Shihri	Chairman
2	Sheikh Azzan bin Nasser bin Farfoor Al Amri	Deputy Chairman
3	Sheikh Dr. Abdul Rub bin Salim bin Abdul Rub Al Yafai	Member
4	Sheikh Hilal bin Hassan bin Ali Al Lawati	Member
5	Dr. Amin Fateh	Member

Notes to the financial statements
For the year ended 31 December 2023

3 MATERIAL ACCOUNTING POLICIES *(continued)*

3.26 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. that date Maisarah commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

3.27 Segment reporting

A segment is a distinguishable component of Maisarah that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Maisarah currently operates only in the Sultanate of Oman. Maisarah's primary format for reporting segmental information is business segments, based upon management and internal reporting structure which are regularly reviewed by the Bank's Chief Operating Decision Maker (CODM). Maisarah's main business segments are retail banking, corporate banking, and treasury & investments.

3.28 Fiduciary assets

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

4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(a) Classification of investment under Wakala as Wakala Venture

Investments made under Wakala can be classified under pass-through approach or Wakala venture approach. Maisarah has opted to apply Wakala venture approach based on the condition that the investment is made in a single asset (or pool of assets) where such assets are subject to frequent changes throughout the term of the contract.

(b) Significant increase in credit risk

ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

(c) Establishing Groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Notes to the financial statements
For the year ended 31 December 2023

4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(d) Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

(e) Key sources of estimation uncertainty

The following are key estimations that have been used in the process of applying the Islamic window's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward-looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default (PD): constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss Given Default (LGD): is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

- Fair value measurement and valuation process: In estimating the fair value of a financial asset, the Islamic window uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Islamic window uses valuation models to determine the fair value of its financial instruments.

(f) Useful life of property and equipment and Ijarah Muntahia Bittamleek

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

(g) Taxation

Judgement applied by Maisarah in respect of taxation is covered under 3.23.

5 Cash and balances with Central Bank of Oman

	2023	2022
	RO 000	*RO 000*
Cash in hand	**2,957**	2,432
Balances with Central Bank of Oman	**25,768**	11,948
	28,725	14,380

Notes to the financial statements
For the year ended 31 December 2023

6 Due from banks and financial institutions

	2023	2022
	RO 000	*RO 000*
Wakala placement – jointly financed	**21,560**	11,550
Current clearing account – self financed	**1,786**	2,269
	23,346	13,819
Less: Impairment allowance for ECL (note 29)	**(2)**	(2)
	23,344	13,817

At 31 December 2023, placement with one overseas and one local bank individually represented 20% or more of the Islamic window's placements (2022: One bank represented 20% or more).

7 Murabaha and other receivables

Gross Murabaha receivables – jointly financed	**32,671**	21,536
Gross Ujrah receivables – jointly financed	**19**	21
	32,690	21,557
Less: Deferred income – jointly financed	**(4,402)**	(3,556)
	28,288	18,001
Credit card receivables – self financed	**1,227**	822
Less: Profit suspended (note 29)	**(20)**	(8)
Less: Impairment allowance for ECL (note 29)	**(394)**	(256)
	29,101	18,559

Murabaha and other receivables past due but not impaired amounts to RO 1,327 thousand (2022: RO 920 thousand).

Deferred income at 1 January	**3,556**	3,535
Sales revenue during the year	**25,680**	21,592
Cost of sales during the year	**(23,288)**	(20,142)
Profit recognised in income	**(1,322)**	(1,403)
Profit waived off	**(213)**	(23)
Profit amortized during the year	**(1,535)**	(1,426)
Profit suspended (note 29)	**(11)**	(3)
Deferred income at 31 December	**4,402**	3,556

8 Mudaraba financing

Mudaraba financing – jointly financed	**7,511**	9,437
Less: Profit suspended (note 29)	**(2)**	-
Less: Impairment allowance for ECL (note 29)	**(204)**	(41)
	7,305	9,396

At reporting date, there were no Mudaraba financing cases which were past due but not impaired.

9 Diminishing Musharaka financing

Diminishing Musharaka – jointly financed	**471,725**	387,597
Less: Impairment allowance for ECL (note 29)	**(15,271)**	(13,361)
	456,454	374,236

Diminishing Musharaka past due but not impaired amounts to RO 73,012 thousand (2022: RO 69,267 thousand).

Notes to the financial statements
For the year ended 31 December 2023

9 Diminishing Musharaka financing *(continued)*

Fair value of collaterals

Upon initial recognition of Diminishing Musharaka, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

10 Investments

	2023	2022
	RO 000	*RO 000*
Fair value through equity:		
i) Non-monetary debt type instruments		
Local listed Sukuk – jointly financed	**3,126**	10,576
International listed Sukuk – jointly financed	**-**	9,019
Sovereign Sukuk – jointly financed	**74,230**	66,607
	77,356	86,202
Less: Impairment provision for ECL (note 29)	**(22)**	(47)
Total debt type instrument – jointly financed	**77,334**	86,155
ii) Equity type instruments		
Local listed Sukuk – jointly financed	**6,206**	6,206
International listed Sukuk – jointly financed	**2,169**	192
Local listed Shares – jointly financed	**5,081**	-
	13,456	6,398
Less: Impairment provision for ECL (note 29)	**(19)**	(11)
Total equity type instrument – jointly financed	**13,437**	6,387
Total instrument – net of impairment	**90,771**	92,542

During the year movement in investments value (excluding impairment) at fair value through equity:

	2023		
	Non-monetary debt type instruments	**Equity type instruments**	**Total**
	RO 000	***RO 000***	***RO 000***
At 1 January	**86,202**	**6,398**	**92,600**
Additions	**10,000**	**6,966**	**16,966**
Disposals	**(20,010)**	**-**	**(20,010)**
Gain from change in fair value	**1,215**	**51**	**1,266**
Amortisation of discount / premium - net	**(51)**	**41**	**(10)**
At 31 December	**77,356**	**13,456**	**90,812**

	2022		
	Non-monetary debt type instruments	**Equity type instruments**	**Total**
	RO 000	***RO 000***	***RO 000***
At 1 January	80,112	-	80,112
Additions	4,012	7,142	11,154
Disposals	-	-	-
Gain / (loss) from change in fair value	2,129	(744)	1,385
Amortisation of discount / premium - net	(51)	-	(51)
At 31 December	86,202	6,398	92,600

During the year changes in equity for each level of valuations:

	2023	2022
	RO 000	*RO 000*
Gain on Level 1 investments	**275**	395
Gain on Level 2 investments	**991**	990
Total gain on investments	**1,266**	1,385

Notes to the financial statements
For the year ended 31 December 2023

11 Wakala

	2023	2022
	RO 000	*RO 000*
Wakala – jointly financed	**98,391**	74,593
Profit receivable on Wakala	**2,279**	1,636
Less: Profit suspended (note 29)	**(52)**	(2)
Less: Impairment allowance for ECL (note 29)	**(1,247)**	(453)
	99,371	75,774

Wakala past due but not impaired amounts to RO 6,159 thousand (2022: RO 3,202 thousand).

12 Ijarah Muntahia Bittamleek

Cost – jointly financed		
at 1 January	**76,060**	56,601
Additions	**5,088**	26,679
Disposals	**(4,190)**	(7,220)
at 31 December	**76,958**	76,060
Accumulated depreciation – jointly financed		
at 1 January	**(12,665)**	(11,389)
Charge for the year	**(5,326)**	(4,706)
Disposals	**3,703**	3,430
at 31 December	**(14,288)**	(12,665)
Net book value at 31 December	**62,670**	63,395
Less: Impairment allowance for ECL (note 29)	**(504)**	(321)
Net Ijarah Muntahia Bittamleek	**62,166**	63,074

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 5,427 thousand (2022: RO 1,796 thousand).

13 Property and equipment

	2023					
	Furniture, fixtures & equipment	**Motor vehicles**	**Computer hardware**	**Right-of-Use Asset**	**Capital work in progress**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Cost						
at 1 January	**1,604**	**81**	**457**	**-**	**267**	**2,409**
Additions	**546**	**-**	**335**	**70**	**155**	**1,106**
Transfers	**-**	**-**	**54**	**-**	**(221)**	**(167)**
at 31 December	**2,150**	**81**	**846**	**70**	**201**	**3,348**
Accumulated depreciation						
at 1 January	**(1,314)**	**(79)**	**(365)**	**-**	**-**	**(1,758)**
Charge for the year	**(169)**	**(2)**	**(84)**	**(16)**	**-**	**(271)**
at 31 December	**(1,483)**	**(81)**	**(449)**	**(16)**	**-**	**(2,029)**
Net book amount at 31 December	**667**	**-**	**397**	**54**	**201**	**1,319**

Notes to the financial statements
For the year ended 31 December 2023

13 Property and equipment *(continued)*

	2022					
	Furniture, fixtures & equipment *RO 000*	Motor vehicles *RO 000*	Computer hardware *RO 000*	Right-of-use Asset *RO 000*	Capital work in progress *RO 000*	Total *RO 000*
Cost						
at 1 January	1,474	81	390	-	51	1,996
Additions	1	-	-	-	351	352
Disposals / Transfers	129	-	67	-	(135)	61
at 31 December	1,604	81	457	-	267	2,409
Accumulated depreciation						
at 1 January	(1,190)	(76)	(336)	-	-	(1,602)
Charge for the year	(124)	(3)	(29)	-	-	(156)
at 31 December	(1,314)	(79)	(365)	-	-	(1,758)
Net book amount at 31 December	290	2	92	-	267	651

14 Intangibles

	2023 *RO 000*	2022 *RO 000*
Cost		
at 1 January	**2,294**	2,215
Additions	**409**	267
Transfers from property and equipment	**167**	(188)
at 31 December	**2,870**	2,294
Accumulated amortisation		
at 1 January	**(1,819)**	(1,544)
Charge for the year	**(251)**	(275)
at 31 December	**(2,070)**	(1,819)
Net book amount at 31 December	**800**	475

15 Other assets

Ijarah rental receivables	**489**	419
Other profit receivables	**13,813**	10,589
Prepayments	**202**	157
Murabaha and Musawama inventory – Jointly financed (15.1)	**-**	3
Advances – Jointly financed	**576**	892
Others	**742**	556
Acceptances	**2,610**	342
	18,432	12,958
Less: Reserve for suspended profit (note 29)	**(1,624)**	(1,028)
Less: Impairment allowance for ECL on accrued profit (note 29)	**(8)**	(9)
Total	**16,800**	11,921

15.1 During 2022, all Murabaha and Musawama inventories are held under the binding promise to purchase.

16 Current accounts

Qard hasan current accounts	**31,350**	30,728
Margin accounts	**5,148**	4,727
Total	**36,498**	35,455

Notes to the financial statements
For the year ended 31 December 2023

17 Qard Hasan from Head Office

	2023	2022
	RO 000	*RO 000*
Qard Hasan from Head Office (17.1)	**25,000**	35,000
Current clearing account (17.2)	**3,309**	4,405
Total	**28,309**	39,405

17.1 This amount represents profit-free Qard Hasan facility obtained on real need basis from Head Office for a specific period as part of Maisarah's liquidity management.

17.2 This amount represents the vostro account of Maisarah opened with Head Office.

18 Other liabilities

Payables	**1,340**	935
Accrued expenses	**3,554**	3,172
Profit payables	**7,319**	5,259
Net Ijarah liability (18.1)	**42**	-
Others	**1,120**	997
Charity payable	**10**	7
Acceptances	**2,610**	342
Impairment allowance for ECL on non-funded exposure (note 29)	**263**	377
Total	**16,258**	11,089

18.1 Summary of gross and net Ijarah liability distributed as per amount due:

	2023		2022	
	Gross Ijarah	**Net Ijarah**	Gross Ijarah	Net Ijarah
Within next 12 months	**16**	**13**	-	-
More than 12 months but within next 5 years	**31**	**29**	-	-
Total	**47**	**42**	-	-

18.2 Unamortized deferred Ijarah cost movement:

	2023	2022
	RO 000	*RO 000*
At 1 January	**-**	-
Recognized during the year	**8**	-
Amortized during the year	**(3)**	-
At 31 December	**5**	-

19 Wakala inter bank deposits

Wakala inter bank deposits	**103,525**	54,250
Total	**103,525**	54,250

At 31 December 2023, inter bank borrowings with Bank Dhofar SAOG represented 20% or more of the Islamic window's due to banks (2022: inter bank borrowings with Bank Dhofar SAOG and Sharjah Islamic Bank represented 20% or more of the Islamic window's due to banks).

20 Wakala customer deposits

Wakala customer call account	**107,141**	118,662
Wakala customer term deposits	**336,870**	263,935
Total	**444,011**	382,597

Notes to the financial statements
For the year ended 31 December 2023

21 Equity of investment accountholders

Saving account	**79,741**	54,143
Profit equalisation reserve	**55**	40
Investment risk reserve	**14**	10
Total	**79,810**	54,193

There is no restricted investment at reporting date.

Basis of distribution of the profit between owners' equity and equity of investment accountholders

The investment profits are distributed between owners' equity and equity of investment accountholders for the period ended 31 December 2023 and 2022 as follows:

	2023 **%**	2022 %
Equity of investment accountholders share	50%	50%
Mudarib's share	50%	50%

The profit equalisation reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib's share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. Equity of investment accountholders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged to Maisarah.

The investment risk reserve is deducted from investment accountholders share after allocating the Mudarib's share of income as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

21.1 Movement in profit equalisation reserve

	2023 ***RO 000***	2022 *RO 000*
Balance as at 1 January	**40**	30
Apportioned during the year	**15**	10
Balance as at 31 December	**55**	40

21.2 Movement in investment risk reserve

Balance as at 1 January	**10**	8
Apportioned during the year	**4**	2
Balance as at 31 December	**14**	10

22 Allocated share capital

During 2022 and 2023, there was no increase in the assigned capital of Maisarah.

23 Fiduciary assets

At reporting date, there were no funds under management with Maisarah.

Notes to the financial statements
For the year ended 31 December 2023

24 Income from Islamic finances and receivables

	2023	2022
	RO 000	*RO 000*
Murabaha receivables	**1,321**	1,402
Mudaraba	**494**	753
Ijarah muntahia bittamleek – net (24.1)	**3,539**	3,061
Diminishing Musharaka	**27,266**	22,259
Revenue from Wakala	**4,867**	4,254
Ujrah fees	**1**	1
Total	**37,488**	31,730

24.1 Depreciation on Ijarah Muntahia Bittamleek amounts to RO 5,326 thousand (2022: RO 4,706 thousand).

25 Income or gains / losses from investments

Investments at fair value through equity:		
Income on non-monetary debt type instrument	**4,264**	4,666
Income on equity-type instrument	**543**	438
Total	**4,807**	5,104

26 Return on customer Wakala deposits

Return allocated to Wakala depositors	**18,505**	13,295
Hiba for Wakala depositors	**64**	-
Total	**18,569**	13,295

27 Staff costs

Salaries and allowances	**5,615**	5,052
Other personnel cost	**907**	861
Non-Omani employee terminal benefits	**56**	44
Total	**6,578**	5,957

28 General and administrative expenses

Occupancy cost	**569**	611
Operating and administration cost	**3,527**	4,440
Total	**4,096**	5,051

Notes to the financial statements

For the year ended 31 December 2023

29 Allowance for expected credit losses

29.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2023 and 2022:

31 December 2023	**Stage 1** *RO 000*	**Stage 2** *RO 000*	**Stage 3** *RO 000*	**Total** *RO 000*
Gross exposure				
Balances with Central Bank of Oman	25,768	-	-	**25,768**
Due from banks and financial institutions	23,346	-	-	**23,346**
Murabaha and other receivables	25,193	3,634	688	**29,515**
Mudaraba financing	1,345	5,820	346	**7,511**
Diminishing Musharaka financing	287,422	167,716	16,587	**471,725**
Investments	85,731	-	-	**85,731**
Wakala financing	34,869	63,796	2,005	**100,670**
Ijarah Muntahia Bittamleek	58,289	4,130	251	**62,670**
Accrued profit	3,747	8,941	1,614	**14,302**
Acceptances	2,412	198	-	**2,610**
Total funded gross exposure	**548,122**	**254,235**	**21,491**	**823,848**
Letter of credit / guarantee	19,136	8,204	-	**27,340**
Financing commitment/unutilised limits	56,916	14,904	-	**71,820**
Total non-funded gross exposure	**76,052**	**23,108**	**-**	**99,160**
Total gross exposure	**624,174**	**277,343**	**21,491**	**923,008**
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	**-**
Due from banks and financial institutions	(2)	-	-	**(2)**
Murabaha and other receivables	(64)	(23)	(327)	**(414)**
Mudaraba financing	(8)	(41)	(157)	**(206)**
Diminishing Musharaka financing	(1,406)	(8,143)	(5,722)	**(15,271)**
Investments	(41)	-	-	**(41)**
Wakala	(132)	(422)	(745)	**(1,299)**
Ijarah Muntahia Bittamleek	(94)	(240)	(170)	**(504)**
Accrued profit	(1)	(7)	(1,624)	**(1,632)**
Acceptances	(1)	(1)	-	**(2)**
Total funded	**(1,749)**	**(8,877)**	**(8,745)**	**(19,371)**
Letter of credit / guarantee	(51)	(38)	-	**(89)**
Financing commitment / unutilised limits	(115)	(57)	-	**(172)**
Total non-funded	**(166)**	**(95)**	**-**	**(261)**
Total allowance and profit suspended	**(1,915)**	**(8,972)**	**(8,745)**	**(19,632)**
Net exposure				
Balances with Central Bank of Oman	25,768	-	-	**25,768**
Due from banks and financial institutions	23,344	-	-	**23,344**
Murabaha and other receivables	25,129	3,611	361	**29,101**
Mudaraba financing	1,337	5,779	189	**7,305**
Diminishing Musharaka financing	286,016	159,573	10,865	**456,454**
Investments	85,690	-	-	**85,690**
Wakala financing	34,737	63,374	1,260	**99,371**
Ijarah Muntahia Bittamleek	58,195	3,890	81	**62,166**
Accrued profit	3,746	8,934	(10)	**12,670**
Acceptances	2,411	197	-	**2,608**
Total funded net exposure	**546,373**	**245,358**	**12,746**	**804,477**
Letter of credit / guarantee	19,085	8,166	-	**27,251**
Financing Commitment / Unutilised limits	56,801	14,847	-	**71,648**
Total non-funded net exposure	**75,886**	**23,013**	**-**	**98,899**
Total net exposure	**622,259**	**268,371**	**12,746**	**903,376**

Notes to the financial statements
For the year ended 31 December 2023

29 Allowance for expected credit losses *(continued)*

31 December 2022	**Stage 1** *RO 000*	**Stage 2** *RO 000*	**Stage 3** *RO 000*	**Total** *RO 000*
Gross exposure				
Balances with Central Bank of Oman	11,948	-	-	11,948
Due from banks and financial institutions	13,819	-	-	13,819
Murabaha and other receivables	17,305	990	528	18,823
Mudaraba financing	4,004	5,433	-	9,437
Diminishing Musharaka financing	261,199	120,343	6,055	387,597
Investments	92,600	-	-	92,600
Wakala financing	31,748	44,314	167	76,229
Ijarah Muntahia Bittamleek	62,925	279	191	63,395
Accrued profit	5,907	4,102	999	11,008
Acceptances	240	102	-	342
Total funded gross exposure	501,695	175,563	7,940	685,198
Letter of credit / guarantee	3,539	13,321	-	16,860
Financing commitment/unutilised limits	48,216	49,180	-	97,396
Total non-funded gross exposure	51,755	62,501	-	114,256
Total gross exposure	553,450	238,064	7,940	799,454
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(2)	-	-	(2)
Murabaha and other receivables	(46)	(11)	(207)	(264)
Mudaraba financing	(9)	(32)	-	(41)
Diminishing Musharaka financing	(1,652)	(9,301)	(2,408)	(13,361)
Investments	(58)	-	-	(58)
Wakala financing	(37)	(371)	(47)	(455)
Ijarah Muntahia Bittamleek	(135)	(60)	(126)	(321)
Accrued profit	(4)	(5)	(1,028)	(1,037)
Acceptances	(1)	-	-	(1)
Total funded	(1,944)	(9,780)	(3,816)	(15,540)
Letter of credit / guarantee	(15)	(101)	-	(116)
Financing commitment / unutilised limits	(80)	(180)	-	(260)
Total non-funded	(95)	(281)	-	(376)
Total allowance and profit suspended	(2,039)	(10,061)	(3,816)	(15,916)
Net exposure				
Balances with Central Bank of Oman	11,948	-	-	11,948
Due from banks and financial institutions	13,817	-	-	13,817
Murabaha and other receivables	17,259	979	321	18,559
Mudaraba financing	3,995	5,401	-	9,396
Diminishing Musharaka financing	259,547	111,042	3,647	374,236
Investments	92,542	-	-	92,542
Wakala financing	31,711	43,943	120	75,774
Ijarah Muntahia Bittamleek	62,790	219	65	63,074
Accrued profit	5,903	4,097	(29)	9,971
Acceptances	239	102	-	341
Total funded net exposure	499,751	165,783	4,124	669,658
Letter of credit / guarantee	3,524	13,220	-	16,744
Financing Commitment / Unutilised limits	48,136	49,000	-	97,136
Total non-funded net exposure	51,660	62,220	-	113,880
Total net exposure	551,411	228,003	4,124	783,538

Notes to the financial statements
For the year ended 31 December 2023

29 Allowance for expected credit losses *(continued)*

In accordance with CBO circular BM 1149 Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant of CBO norms, including those on restructuring of accounts for regulatory reporting purposes.

29.2.1 Comparison of provisions held as per Credit Loss approach and required as per CBO norms

Disclosure requirements containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per Credit Loss approach, and reserve profit required as per CBO are given below:

Notes to the financial statements
For the year ended 31 December 2023

29 Allowance for expected credit losses *(continued)*

29.2.1 Comparison of provisions held as per Credit Loss (CL) approach and required as per CBO norms (continued)

31 December 2023									
Asset Classification as per CBO Norms	Asset Classification	Gross Amount	Provision required as per CBO Norms	Provision held as per CL	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per CL	Profit recognized	Reserve profit as per CBO norms
		RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7) = 3-4-10	(8) = 3-5	(9)	(10)
	Stage 1	407,118	4,268	1,704	2,564	402,850	405,414	-	-
Standard	Stage 2	192,419	1,894	6,420	(4,526)	190,525	185,999	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**599,537**	**6,162**	**8,124**	**(1,962)**	**593,375**	**591,413**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	52,677	532	2,449	(1,917)	52,145	50,228	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**52,677**	**532**	**2,449**	**(1,917)**	**52,145**	**50,228**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	11,211	2,790	3,815	(1,025)	8,362	7,396	-	59
Subtotal		**11,211**	**2,790**	**3,815**	**(1,025)**	**8,362**	**7,396**	**-**	**59**
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,528	1,047	991	56	1,481	1,537	-	-
Subtotal		**2,528**	**1,047**	**991**	**56**	**1,481**	**1,537**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	6,138	2,540	2,315	225	3,583	3,823	-	15
Subtotal		**6,138**	**2,540**	**2,315**	**225**	**3,583**	**3,823**	**-**	**15**
	Stage 1	217,056	-	211	(211)	217,056	216,845	-	-
Other items	Stage 2	32,247	-	103	(103)	32,247	32,144	-	-
	Stage 3	1,614	-	1,624	(1,624)	(10)	(10)	-	1,624
Subtotal		**250,917**	**-**	**1,938**	**(1,938)**	**249,293**	**248,979**	**-**	**1,624**
	Stage 1	**624,174**	**4,268**	**1,915**	**2,353**	**619,906**	**622,259**	**-**	**-**
Total	**Stage 2**	**277,343**	**2,426**	**8,972**	**(6,546)**	**274,917**	**268,371**	**-**	**-**
	Stage 3	**21,491**	**6,377**	**8,745**	**(2,368)**	**13,416**	**12,746**	**-**	**1,698**
	Total	**923,008**	**13,071**	**19,632**	**(6,561)**	**908,239**	**903,376**	**-**	**1,698**

Notes to the financial statements
For the year ended 31 December 2023

29 Allowance for expected credit losses *(continued)*

29.2.1 Comparison of provisions held as per Credit Loss (CL) approach and required as per CBO norms (continued)

		31 December 2022							
Asset Classification as per CBO Norms	Asset Classification	Gross Amount	Provision required as per CBO Norms	Provision held as per CL	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per CL	Profit recognized	Reserve profit as per CBO norms
		RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7) = 3-4-10	(8) = 3-5	(9)	(10)
	Stage 1	362,369	3,813	1,651	2,162	358,556	360,718	-	-
Standard	Stage 2	151,515	1,487	8,406	(6,919)	150,028	143,109	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		513,884	5,300	10,057	(4,757)	508,584	503,827	-	-
	Stage 1	14,812	151	228	(77)	14,661	14,584	-	-
Special Mention	Stage 2	19,844	200	1,369	(1,169)	19,644	18,475	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		34,656	351	1,597	(1,246)	34,305	33,059	-	-
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,468	366	419	(53)	1,102	1,049	-	-
Subtotal		1,468	366	419	(53)	1,102	1,049	-	-
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,690	512	627	(115)	1,178	1,063	-	-
Subtotal		1,690	512	627	(115)	1,178	1,063	-	-
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,783	1,368	1,742	(374)	2,405	2,041	-	10
Subtotal		3,783	1,368	1,742	(374)	2,405	2,041	-	10
	Stage 1	176,269	-	160	(160)	176,269	176,109	-	-
Other items	Stage 2	66,705	-	286	(286)	66,705	66,419	-	-
	Stage 3	999	-	1,028	(1,028)	(29)	(29)	-	1,028
Subtotal		243,973	-	1,474	(1,474)	242,945	242,499	-	1,028
	Stage 1	553,450	3,964	2,039	1,925	549,486	551,411	-	-
Total	**Stage 2**	238,064	1,687	10,061	(8,374)	236,377	228,003	-	-
	Stage 3	7,940	2,246	3,816	(1,570)	4,656	4,124	-	1,038
	Total	799,454	7,897	15,916	(8,019)	790,519	783,538	-	1,038

Notes to the financial statements
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29 Allowance for expected credit losses *(continued)*

29.2.1 Comparison of provisions held as per Credit Loss (CL) and required as per CBO norms (continued)

Other items disclosed above includes exposure which are not subjected to provision under BM 977 and related instructions. This represents outstanding and respective provisions held against letter of credit and guarantee, financing commitments / unutilised limits, investments at fair value through equity and other assets.

29.2.2 Restructured financing

		31 December 2023							
Asset Classification as per CBO Norms	**Asset Classification**	**Gross Amount**	**Provision required as per CBO Norms**	**Provision held as per CL**	**Difference between CBO provision required and provision held**	**Net Amount as per CBO norms***	**Net Amount as per CL**	**Profit recognized**	**Reserve profit as per CBO norms**
		RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = 4-5**	**(7) = 3-4-10**	**(8) = 3-5**	**(9)**	**(10)**
Classified as performing	Stage 1	47,065	475	759	(284)	46,590	46,306	-	-
	Stage 2	83,408	818	6,131	(5,313)	82,590	77,277	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**130,473**	**1,293**	**6,890**	**(5,597)**	**129,180**	**123,583**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	11,396	3,076	4,454	(1,378)	7,586	6,942	-	734
Subtotal		**11,396**	**3,076**	**4,454**	**(1,378)**	**7,586**	**6,942**	**-**	**734**
Total	**Stage 1**	**47,065**	**475**	**759**	**(284)**	**46,590**	**46,306**	**-**	**-**
	Stage 2	**83,408**	**818**	**6,131**	**(5,313)**	**82,590**	**77,277**	**-**	**-**
	Stage 3	**11,396**	**3,076**	**4,454**	**(1,378)**	**7,586**	**6,942**	**-**	**734**
	Total	**141,869**	**4,369**	**11,344**	**(6,975)**	**136,766**	**130,525**	**-**	**734**

Notes to the financial statements
For the year ended 31 December 2023

29 Allowance for expected credit losses *(continued)*

29.2.2 Restructured financing (continued)

31 December 2022									
Asset Classification as per CBO Norms	**Asset Classification**	**Gross Amount**	**Provision required as per CBO Norms**	**Provision held as per CL**	**Difference between CBO provision required and provision held**	**Net Amount as per CBO norms***	**Net Amount as per CL**	**Profit recognized**	**Reserve profit as per CBO norms**
		RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = 4-5**	**(7) = 3-4-10**	**(8) = 3-5**	**(9)**	**(10)**
Classified as performing	Stage 1	65,423	663	1,133	(470)	64,760	64,290	-	-
	Stage 2	87,370	863	6,396	(5,533)	86,507	80,974	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		152,793	1,526	7,529	(6,003)	151,268	145,264	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,994	498	911	(413)	1,287	1,083	-	209
Subtotal		1,994	498	911	(413)	1,287	1,083	-	209
Total	**Stage 1**	65,423	663	1,133	(470)	64,760	64,290	-	-
	Stage 2	87,370	863	6,396	(5,533)	86,507	80,974	-	-
	Stage 3	1,994	498	911	(413)	1,287	1,083	-	209
	Total	154,787	2,024	8,440	(6,416)	152,554	146,347	-	209

***** *Net of provisions and reserve profit as per CBO norms.*

Asset Classification	**31 December 2023**		
	As per CBO Norms	**As per CL**	**Difference**
	RO 000	***RO 000***	***RO 000***
Impairment loss charged to statement of profit or loss	**6,446**	**6,308**	**138**
Provision required as per CBO norms including reserve profit/held	**14,769**	**19,632**	**(4,863)**
Gross non-performing financing (percentage)	**2.96%**	**2.96%**	**0.00%**
Net non-performing financing (percentage)	**2.04%**	**1.95%**	**0.09%**

Asset Classification	31 December 2022		
	As per CBO Norms	As per CL	Difference
	RO 000	*RO 000*	*RO 000*
Impairment loss charged to statement of profit or loss	1,272	3,252	(1,980)
Provision required as per CBO norms including reserve profit/held	8,935	15,916	(6,981)
Gross non-performing financing (percentage)	1.24%	1.24%	0.00%
Net non-performing financing (percentage)	0.85%	0.76%	0.09%

Notes to the financial statements
For the year ended 31 December 2023

29 Allowance for expected credit losses *(continued)*

29.3 Following tables show the movement in impairment allowance for the year:

31 December 2023	**Stage 1** *RO 000*	**Stage 2** *RO 000*	**Stage 3** *RO 000*	**Total** *RO 000*
Impairment allowance at beginning	**2,039**	**10,061**	**3,816**	**15,916**
Charge / (Reversal) for the year – Stage 1	**(124)**	**-**	**-**	**(124)**
Charge / (Reversal) for the year – Stage 2	**-**	**(1,089)**	**-**	**(1,089)**
Charge for the year – Stage 3	**-**	**-**	**4,819**	**4,819**
Reversal of charge – Stage 3	**-**	**-**	**(550)**	**(550)**
Net charge for the year	**(124)**	**(1,089)**	**4,269**	**3,056**
Impairment allowance at end before profit suspended	**1,915**	**8,972**	**8,085**	**18,972**
Add: Increase in profit suspended	**-**	**-**	**660**	**660**
Impairment allowance at end	**1,915**	**8,972**	**8,745**	**19,632**

31 December 2022	**Stage 1** *RO 000*	**Stage 2** *RO 000*	**Stage 3** *RO 000*	**Total** *RO 000*
Impairment allowance at beginning	5,292	4,732	2,445	12,469
Charge / (Reversal) for the year – Stage 1	(3,253)	-	-	(3,253)
Charge / (Reversal) for the year – Stage 2	-	5,329	-	5,329
Charge for the year – Stage 3	-	-	1,762	1,762
Reversal of charge – Stage 3	-	-	(586)	(586)
Net charge for the year	(3,253)	5,329	1,176	3,252
Impairment allowance at end before profit suspended	2,039	10,061	3,621	15,721
Add: Increase in profit suspended	-	-	195	195
Impairment allowance at end	2,039	10,061	3,816	15,916

Notes to the financial statements
For the year ended 31 December 2023

30 Related parties' transactions

In the ordinary course of business, Maisarah conducts transactions with certain of its directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2023	2022
	RO 000	*RO 000*
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**111**	149
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**79**	15,055
Other related parties	**19,727**	29,000
	19,806	44,055
Remuneration paid to Shari'a Board members & Shari'a Supervisor		
Chairman		
– remuneration	**9**	9
– sitting fees paid	**3**	3
Other Members		
– remuneration	**28**	27
– sitting fees paid	**9**	9
	49	48
Other transactions		
Rental payment to a related party	**171**	245
Income from finance to related parties	**6**	8
Profit expense on deposits from related parties	**1,526**	761
Key management compensation		
Salaries and other benefits	**408**	568
	408	568

At 31 December 2023, profit rate for finances range from 3.54% to 5.0% (2022: 3.5% to 5.0%), and profit rate for deposits range from 0.0% to 5.75% (2022: 0.0% to 4.6%).

31 Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit and other commitments for which there are corresponding customer liabilities:

	2023	2022
Letters of credit	**5,123**	2,447
Guarantees	**22,217**	14,413
Total	**27,340**	16,860

(b) Capital and investment commitments

	2023	2022
Contractual commitments for property and equipment	**1,340**	2,177

Notes to the financial statements
For the year ended 31 December 2023

31 Contingent liabilities and commitments *(continued)*

(c) The unutilised limits of Maisarah's funded and non-funded exposure for the year ended 31 December 2023 amounts to RO 77,421 thousand (2022: 100,253 thousand).

32 Islamic financial derivatives

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The values of the derivative instruments held are set out as below:

Forward exchange contracts	**Contract / Notional Amount by term to Maturity**			
31 December 2023	**within 3 months**	**4-12 months**	**more than 12 months**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Currency forward - purchase contracts	**3,850**	**-**	**-**	**3,850**
Currency forward - sale contracts	**3,850**	**-**	**-**	**3,850**

Forward exchange contracts	**Contract / Notional Amount by term to Maturity**			
31 December 2022	**within 3 months**	**4-12 months**	**more than 12 months**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Currency forward - purchase contracts	96,250	7,700	-	103,950
Currency forward - sale contracts	96,250	7,708	-	103,958

33 Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2023			
Fair value information	**Level 1**	**Level 2**	**Level 3**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Investments at fair value through equity	**90,236**	**576**	**-**	**90,812**

Notes to the financial statements
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33 Fair value information *(continued)*

	31 December 2022			
Fair value information	**Level 1** *RO 000*	**Level 2** *RO 000*	**Level 3** *RO 000*	**Total** *RO 000*
Investments at fair value through equity	73,005	19,595	-	92,600

34 Financial risk management

The important types of financial risks to which Maisarah is exposed are credit risk, liquidity risk and market risk. The risk management division of Maisarah is an independent and dedicated unit reporting directly to the Board Risk Committee ("BRC"). The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all committees of the Bank are among the factors which reflect the independence of the Risk Management Division's working and the key role it plays within Maisarah.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors ("the Board") for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. BRC is responsible for reviewing and recommending to the full Board, approval of risk policies and procedures. BRC also reviews the risk profile of Maisarah as presented to it by the Risk Management Division and appraises the full Board in its periodic meetings.

Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Executive Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. Management Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division ("RMD") through a system of independent risk assessment in credit proposals before they are considered by the appropriate approving authorities. Maisarah has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making informed credit decision. Maximum counterparty/group exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using internal ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines.

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

34.1 Measures at the Window Level

In line with the CBO guidelines, the Window has considered restructuring of all eligible accounts whose cash flows have been impacted by the COVID-19 situation and has backed by specific requests from them. For such cases, every review includes an assessment on whether the strain on cash flows observed are on account of the COVID impact or otherwise and in case these are identified to be otherwise, the accounts are suitably staged. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of related accounting standard. As at 31 December 2023, the Window has restructured financing amounting to RO 141,869 thousand, constituting 21% of total financing. Window has also considered additional ECL to address significant increase in credit risk in certain accounts based on its judgment and experience.

The Window has also undertaken other initiatives to manage the potential business disruption on its operations and financial performance. This entails reviewing counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of financing, wherever required. The set-up of robust digital technology supported in maintaining customer service and experience during these trying times.

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available. In assessing forecast conditions, consideration have been given both to the effects of COVID (including various variants of virus) and the government support measures being undertaken.

34.1.1 Impact on SICR:

The Window has given specific consideration to the relevant impact of COVID on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in staging downgrade of certain exposures and recognition of relevant ECLs and impairment allowances as disclosed in note 34 to the financial statements. Further, the monitoring of overdue and SICR have been enhanced by reviewing all exceptional reports and undertaking quarterly reviews in respect of accounts in risk grade of 5 to 8. Additional exposure is undertaken on selective basis duly supported by the cashflows that can be firmly established, and the requirements are considered with proper monitoring mechanism.

34.1.2 Impact on ECL:

The Window estimates its Expected Credit Losses (ECLs) considering the macroeconomic indicators and ECLs were estimated based on forward-looking macro-economic factors considering the severity and likelihood of economic scenarios. The macro-economic variables for estimation of forward-looking factor in ECL were identified based on their level and direction of association with asset quality ratio of Oman Banking sector. The forward-looking factors, called as Cyclicality Index, is used to forecast expected point-in-time probability of defaults for all the portfolio for which ECL is estimated. The forward-looking macro-economic factors were revised during the year 2023 as per guidelines of the Bank and in line with the revision of GDP projections by the International Monetary Fund. The revision made in the macro-economic indicators during last year is provided as under:

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

34.1 Measures at the Window Level (continued)

34.1.2 Impact on ECL (continued):

	Real GDP growth (%)			Oil revenue (%GDP)	
	Dec-23	Dec-22		Dec-23	Dec-22
Present	5.00%	12.70%		29.42%	25.97%
Year 1	5.50%	5.60%		28.00%	33.35%
Year 2	1.90%	2.70%		27.97%	28.77%
Year 3	2.30%	2.50%		26.20%	26.35%

The ECL has been calculated as probability weighted figure for three scenarios i.e. Base case, Upside and Downside with 50%, 25% and 25% weightings respectively. No change has been considered in the weightage, as the situation is fast evolving and the Window has already considered the conservative estimates of macro-economic indicators as base case, as highlighted in the above table. As per the revised estimates provided by different agencies, the real GDP growth projections have improved.

The Window's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise. Other than changes in the macro-economic indicators, the Window has also considered 12-month ECL for revolving credit facilities as advised by the regulator. The total ECL of Maisarah has increased from RO 14,878 thousand as at Dec-22 to RO 17,934 thousand as at Dec-23, thereby increasing the ECL by RO 3,056 thousand. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

Sensitivity of ECL to future economic conditions

The Window is currently using three scenarios viz., Base case, Upside and Downside and weightage of 50%, 25% and 25% respectively is applied to estimation the ECL. The below tables provide the impact on ECL on major assets, if weight of 100% is applied to Base case and Downside scenarios:

As at 31 December 2023	**ECL for Financing / Receivables**	**ECL for Investment securities**	**ECL for Other Portfolio**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Scenarios currently used by the Window	**17,620**	**41**	**273**	**17,934**
100% Base case scenario	**17,345**	**41**	**275**	**17,661**
100% Downside scenario	**20,305**	**69**	**510**	**20,884**

As at 31 December 2022	**ECL for Financing / Receivables**	**ECL for Investment securities**	**ECL for Other Portfolio**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Scenarios currently used by the Window	14,818	58	2	14,878
100% Base case scenario	13,654	53	1	13,708
100% Downside scenario	16,399	97	1	16,497

The above tables reveal that in case of 100% downside scenario, the ECL may increase by **RO 2,950 thousand** (2022: 1,619 thousand) from the current position.

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

34.1 Measures at the Window Level *(continued)*

34.1.3 Accounting for modification loss and restructuring:

In case of corporate customers, the Window plans to add the simple profit accrued during the deferral period to the principal outstanding and either extend the original maturity period of the financing or increase the instalments at the end of the DP. The Window has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures did not result in derecognition of financial assets.

Considering the specific nature of Islamic Financial Institutions (IFIs), in line with the Shari'a principles and rules, AAOIFI does not allow either recording a receivable (Dain) on net present value (NPV) or applying the concept of opportunity cost in accounting.

34.1.4 Impact on the Capital Adequacy:

The Window has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. As per the Prudential filter, the Tier II capital of the Window will comprise of Stage 1 ECL plus portion of Stage 2 ECL. Such portion shall be estimated as under:

- The Stage 2 ECL amount as on Dec-19 is considered "Base Year Amount"; and
- The incremental ECL (i.e., Stage 2 ECL at a respective reporting date minus Stage 2 ECL as at Dec-19) may be considered for Tier 2 capital subject to incremental reduction of 20% ECL every year (like 80% in 2022, 60% in 2023, 40% in 2023 etc.).

The Tier II Capital has improved by 0.30% due to application of the above prudential filter.

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

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

Gross exposures subjected to credit risk exposure are as follows:

(a) Portfolio concentrations (Gross)

	2023	2022
	RO 000	*RO 000*
Balances with CBO	**25,768**	11,948
Due from Banks	**23,346**	13,819
Total financing	**672,091**	555,481
Investments	**85,731**	92,600
Letter of credit / Guarantee	**27,340**	16,860
Acceptances	**2,610**	342
Unutilized exposure	**71,820**	97,396
Accrued profit	**14,302**	11,008
Total	**923,008**	799,454

(b) Geographical concentrations (Gross)

	2023				
	Sultanate of Oman	**Other GCC Countries**	**Europe and North America**	**Africa and Asia**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Balances with CBO	**25,768**	**-**	**-**	**-**	**25,768**
Due from Banks	**10,010**	**11,991**	**1,345**	**-**	**23,346**
Total financing	**672,091**	**-**	**-**	**-**	**672,091**
Investments	**83,562**	**2,169**	**-**	**-**	**85,731**
Letter of credit / Guarantee	**24,137**	**246**	**1,096**	**1,861**	**27,340**
Acceptances	**128**	**148**	**152**	**2,182**	**2,610**
Unutilized exposure	**71,820**	**-**	**-**	**-**	**71,820**
Accrued profit	**14,277**	**25**	**-**	**-**	**14,302**
Total	**901,793**	**14,579**	**2,593**	**4,043**	**923,008**

	2022				
	Sultanate of Oman	Other GCC Countries	Europe and North America	Africa and Asia	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Balances with CBO	11,948	-	-	-	11,948
Due from Banks	-	12,160	1,659	-	13,819
Total financing	555,481	-	-	-	555,481
Investments	92,408	192	-	-	92,600
Letter of credit / Guarantee	15,276	259	-	1,325	16,860
Acceptances	212	79	-	51	342
Unutilized exposure	97,396	-	-	-	97,396
Accrued profit	10,999	9	-	-	11,008
Total	783,720	12,699	1,659	1,376	799,454

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

(c) Customer concentrations (Gross)

	2023			
	Retail	**Corporate**	**Government**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Balances with CBO	**-**	**-**	**25,768**	**25,768**
Due from Banks	**-**	**23,346**	**-**	**23,346**
Total financing	**225,591**	**446,500**	**-**	**672,091**
Investments	**-**	**11,501**	**74,230**	**85,731**
Letter of credit / Guarantee	**8,841**	**18,499**	**-**	**27,340**
Acceptances	**35**	**2,575**	**-**	**2,610**
Unutilized exposure	**-**	**71,820**	**-**	**71,820**
Accrued profit	**626**	**13,247**	**429**	**14,302**
Total	**235,093**	**587,488**	**100,427**	**923,008**

	2022			
	Retail	Corporate	Government	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*
Balances with CBO	-	-	11,948	11,948
Due from Banks	-	13,819	-	13,819
Total financing	176,182	379,299	-	555,481
Investments	-	25,993	66,607	92,600
Letter of credit / Guarantee	136	16,724	-	16,860
Acceptances	-	342	-	342
Unutilized exposure	-	97,396	-	97,396
Accrued profit	505	10,001	502	11,008
Total	176,823	543,574	79,057	799,454

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

(d) Sector concentrations (Gross)

	2023								
	Balances with CBO	Due from Banks	Total financing	Investments	Letter of credit / Guarantee	Acceptances	Unutilized exposure	Accrued profit	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Import trade	-	-	49,750	-	3,628	2,302	12,562	21	68,263
Export trade	-	-	-	-	5	-	-	-	5
Wholesale & retail trade	-	-	16,002	-	329	12	2,553	83	18,979
Mining & quarrying	-	-	6,089	-	60	-	4	3	6,156
Construction	-	-	237,331	-	11,844	223	9,874	8,626	267,898
Manufacturing	-	-	20,667	-	505	-	21,088	75	42,335
Electricity, gas and water	-	-	9,874	-	-	-	635	-	10,509
Transport & communication	-	-	28	-	354	-	1,649	-	2,031
Financial institutions	-	23,346	5,003	11,501	8	-	14,800	380	55,038
Services	-	-	69,401	-	1,458	-	2,682	3,733	77,274
Government	25,768	-	-	74,230	-	-	-	429	100,427
Retail	-	-	225,591	-	8,841	35	-	626	235,093
Agriculture and allied Activities	-	-	10,937	-	39	38	4,713	3	15,730
Others	-	-	21,418	-	269	-	1,260	323	23,270
Total	25,768	23,346	672,091	85,731	27,340	2,610	71,820	14,302	923,008

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

(d) Sector concentrations (Gross) *(continued)*

	2022								
	Balances with CBO	Due from Banks	Total financing	Investments	Letter of credit / Guarantee	Acceptances	Unutilized exposure	Accrued profit	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Import trade	-	-	31,936	-	2,842	97	14,472	11	49,358
Export trade	-	-	-	-	10	-	-	-	10
Wholesale & retail trade	-	-	15,251	-	478	60	3,492	452	19,733
Mining & quarrying	-	-	6,002	-	79	-	91	4	6,176
Construction	-	-	187,145	-	11,678	54	32,312	7,083	238,272
Manufacturing	-	-	21,445	-	461	-	32,644	58	54,608
Electricity, gas and water	-	-	3,252	-	12	-	1,023	27	4,314
Transport & communication	-	-	71	-	-	-	96	1	168
Financial institutions	-	13,819	15,387	25,993	25	-	810	518	56,552
Services	-	-	68,479	-	731	130	2,242	1,592	73,174
Government	11,948	-	-	66,607	-	-	-	502	79,057
Retail	-	-	176,182	-	136	-	-	505	176,823
Agriculture and allied Activities	-	-	9,024	-	153	-	5,288	14	14,479
Others	-	-	21,307	-	255	1	4,926	241	26,730
Total	11,948	13,819	555,481	92,600	16,860	342	97,396	11,008	799,454

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

(e) Credit quality concentration (Gross)

	2023			
	Performing Not Past Due	**Performing Past Due**	**Non-Performing**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Balances with CBO	**25,768**	**-**	**-**	**25,768**
Due from Banks	**23,346**	**-**	**-**	**23,346**
Total financing	**566,289**	**85,925**	**19,877**	**672,091**
Investments	**85,731**	**-**	**-**	**85,731**
Letter of credit / Guarantee	**27,340**	**-**	**-**	**27,340**
Acceptances	**2,610**	**-**	**-**	**2,610**
Unutilized exposure	**71,820**	**-**	**-**	**71,820**
Accrued profit	**10,162**	**2,526**	**1,614**	**14,302**
Total	**813,066**	**88,451**	**21,491**	**923,008**

	2022			
	Performing Not Past Due	Performing Past Due	Non-Performing	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*
Balances with CBO	11,948	-	-	11,948
Due from Banks	13,819	-	-	13,819
Total financing	479,197	69,343	6,941	555,481
Investments	92,600	-	-	92,600
Letter of credit / Guarantee	16,860	-	-	16,860
Acceptances	342	-	-	342
Unutilized exposure	97,396	-	-	97,396
Accrued profit	7,816	2,193	999	11,008
Total	719,978	71,536	7,940	799,454

(f) Amounts arising from Expected Credit Loss (ECL)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk (SICR)

The assessment of SICR since origination of a financial asset considers customer-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking information. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

For retail exposures, a significant increase in credit risk cannot be assessed using forward-looking information at an individual account level. Therefore, the assessment is done at the segment level. Segment migration thresholds exist for each PD model by product which considers the proportionate change in PD as well as the absolute change in PD. The thresholds used for PD migration are reviewed and assessed at least annually, unless there is a significant change in credit risk management practices in which case the review is brought forward.

For non-retail exposures the Window uses an internal risk rating scale for its non-retail exposures. All non-retail exposures have an internal rating grade assigned that reflects the probability of default of the customer. Both customer specific and non-customer specific (i.e. macroeconomic) forward-looking information is considered and reflected in the internal rating grade. Significant increase in credit risk is evaluated based on the migration of the exposures among rating grades.

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL)

Incorporation of forward-looking information

The Window incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Window formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 25% probability of occurring. External information considered includes economic data and forecasts published by monetary authorities and selected private-sector forecasters. A comprehensive review is performed at least annually on the design of the scenarios by the Bank's senior management.

Economic variable assumptions

The Window uses the macroeconomic forecast to convert the Through the Cycle (TTC) PD into Point in Time (PIT) PD. Real GDP growth rate and Oil Revenue to GDP are considered for establishing the relationship with historical non-performing financing (NPFs) data of the banking system, as they were observed to be more statistically significant parameters reflecting the state of economy. The forecast of macro-economic indicators are considered for next 3 years with time lag of 1 year. The macroeconomic indicators used as at **31 December 2023** including the projections used is presented as under:

		2023	2022			**2023**	2022
Real GDP growth (%)	Present	**5.00%**	12.70%	**Oil revenue (%GDP)**	Present	**29.42%**	25.97%
	Year 1 Projection	**5.50%**	5.60%		Year 1 Projection	**28.00%**	33.35%
	Year 2 Projection	**1.90%**	2.70%		Year 2 Projection	**27.97%**	28.77%
	Year 3 Projection	**2.30%**	2.50%		Year 3 Projection	**26.20%**	26.35%

Predicted relationships between the macroeconomic indicators, default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 24 years.

Credit risk grading

The Window uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Window has adopted a risk rating framework having 8 performing financings and receivables grades (including special mention) and 3 non-performing financings and receivables grades. The Window's internal Risk Rating (RR) risk rates a customer and to associate a default probability to each rating grade. The ratings assist studying the distribution of customers, grade wise exposures, transition of credit risk ratings over time, grade wise defaults, Non-Performing financings and receivables etc. Risk appetite is also set in terms of how much exposure the Window expects in various grade bands. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

'**High Grade**' exposures includes the risk rate of 1-3 which includes the exposures with good to excellent business credit quality, good to exceptional capacity for timely fulfilment of the financial obligation and negligible or low probability of default and / or low levels of expected loss.

'**Standard Grade**' exposures includes the risk rate of 4-5 which includes the exposures of acceptable to fair credit quality, satisfactory capacity for timely fulfilment of the financial obligation. These exposures carry average to marginally acceptable risk.

'**Satisfactory Grade**' exposures includes the risk rate of 6-8 which includes the exposures with comparatively weak or less acceptable credit quality. The exposures carry high risk, caution and special mention category. Projected repayment capacity is strained and prospects may deteriorate at some future date. These reflect either weak operating environment or operations reflect weakness.

'**Non-performing**' exposures have been assessed as impaired and includes the risk rate of 9 to 11. These also include retail accounts that are delinquent by more than 90 days, unless individually they have been assessed as not impaired; and renegotiated financings and receivables grades that have met the requirements to be disclosed as impaired and have not yet met the criteria to be returned to the unimpaired portfolio.

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2023	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Balances with CBO								
High grade	-	25,768	-	-	-	-	**-**	**25,768**
Standard grade	-	-	-	-	-	-	**-**	**-**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**-**	**25,768**	**-**	**-**	**-**	**-**	**-**	**25,768**
Banks								
High grade	-	-	-	-	-	-	**-**	**-**
Standard grade	2	23,346	-	-	-	-	**2**	**23,346**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**2**	**23,346**	**-**	**-**	**-**	**-**	**2**	**23,346**
Financing to customers								
Corporate and SME								
High grade	82	32,463	1,333	12,676	-	-	**1,415**	**45,139**
Standard grade	501	105,562	3,460	156,797	-	-	**3,961**	**262,359**
Satisfactory grade	690	47,129	3,630	73,407	-	-	**4,320**	**120,536**
Non-performing	-	-	-	-	6,305	18,466	**6,305**	**18,466**
Total	**1,273**	**185,154**	**8,423**	**242,880**	**6,305**	**18,466**	**16,001**	**446,500**
Retail (Personal)								
High grade	45	18,528	-	-	-	-	**45**	**18,528**
Standard grade	4	472	-	-	-	-	**4**	**472**
Satisfactory grade	-	-	13	122	-	-	**13**	**122**
Non-performing	-	-	-	-	134	191	**134**	**191**
Total	**49**	**19,000**	**13**	**122**	**134**	**191**	**196**	**19,313**
Retail (Housing and credit card receivables)								
High grade	382	202,964	257	1,133	77	117	**716**	**204,214**
Standard grade	-	-	85	606	16	39	**101**	**645**
Satisfactory grade	-	-	91	355	-	-	**91**	**355**
Non-performing	-	-	-	-	589	1,064	**589**	**1,064**
Total	**382**	**202,964**	**433**	**2,094**	**682**	**1,220**	**1,497**	**206,278**
Total financing	**1,704**	**407,118**	**8,869**	**245,096**	**7,121**	**19,877**	**17,694**	**672,091**
Investments								
High grade	-	74,230	-	-	-	-	**-**	**74,230**
Standard grade	41	11,501	-	-	-	-	**41**	**11,501**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**41**	**85,731**	**-**	**-**	**-**	**-**	**41**	**85,731**
Letter of credit / Guarantees								
Corporate and SME	34	10,295	38	8,204	-	-	**72**	**18,499**
Retail	17	8,841	-	-	-	-	**17**	**8,841**
Total	**51**	**19,136**	**38**	**8,204**	**-**	**-**	**89**	**27,340**
Others								
Unutilised	115	56,916	57	14,904	-	-	**172**	**71,820**
Acceptances	1	2,412	1	198	-	-	**2**	**2,610**
Accrued profit	1	3,747	7	8,941	1,624	1,614	**1,632**	**14,302**
Total	**117**	**63,075**	**65**	**24,043**	**1,624**	**1,614**	**1,806**	**88,732**
Total portfolio	**1,915**	**624,174**	**8,972**	**277,343**	**8,745**	**21,491**	**19,632**	**923,008**

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Balances with CBO								
High grade	-	11,948	-	-	-	-	-	11,948
Standard grade	-	-	-	-	-	-	-	-
Satisfactory grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	-	11,948	-	-	-	-	-	11,948
Banks								
High grade	-	-	-	-	-	-	-	-
Standard grade	2	13,819	-	-	-	-	2	13,819
Satisfactory grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	2	13,819	-	-	-	-	2	13,819
Financing to customers								
Corporate and SME								
High grade	66	46,130	2,620	12,261	-	-	2,686	58,391
Standard grade	566	91,041	2,128	71,508	-	-	2,694	162,549
Satisfactory grade	973	66,104	4,737	85,900	-	-	5,710	152,004
Non-performing	-	-	-	-	2,381	6,355	2,381	6,355
Total	1,605	203,275	9,485	169,669	2,381	6,355	13,471	379,299
Retail (Personal)								
High grade	28	13,478	-	-	-	-	28	13,478
Standard grade	2	240	-	-	-	-	2	240
Satisfactory grade	-	-	3	34	-	-	3	34
Non-performing	-	-	-	-	94	151	94	151
Total	30	13,718	3	34	94	151	127	13,903
Retail (Housing and credit card receivables)								
High grade	244	160,188	148	684	58	96	450	160,968
Standard grade	-	-	99	785	-	-	99	785
Satisfactory grade	-	-	40	187	-	-	40	187
Non-performing	-	-	-	-	255	339	255	339
Total	244	160,188	287	1,656	313	435	844	162,279
Total financing	1,879	377,181	9,775	171,359	2,788	6,941	14,442	555,481
Investments								
High grade	-	66,607	-	-	-	-	-	66,607
Standard grade	58	25,993	-	-	-	-	58	25,993
Satisfactory grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	58	92,600	-	-	-	-	58	92,600
Letter of credit / Guarantees								
Corporate and SME	15	3,403	101	13,321	-	-	116	16,724
Retail	-	136	-	-	-	-	-	136
Total	15	3,539	101	13,321	-	-	116	16,860
Others								
Unutilised	80	48,216	180	49,180	-	-	260	97,396
Acceptances	1	240	-	102	-	-	1	342
Accrued profit	4	5,907	5	4,102	1,028	999	1,037	11,008
Total	85	54,363	185	53,384	1,028	999	1,298	108,746
Total portfolio	2,039	553,450	10,061	238,064	3,816	7,940	15,916	799,454

Retail related housing and credit card receivable portfolio is not rated and currently it is categorized based on days past due bucket.

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

The gross exposure of the financial assets as at **31 December 2023** along with reconciliations from the opening to the closing balance by class of financial instruments are as follows:

31 December 2023	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Balances with CBO								
Opening balance	-	11,948	-	-	-	-	**-**	**11,948**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	13,820	-	-	-	-	**-**	**13,820**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**-**	**25,768**	**-**	**-**	**-**	**-**	**-**	**25,768**
Banks								
Opening balance	2	13,819	-	-	-	-	**2**	**13,819**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	(483)	-	-	-	-	**-**	**(483)**
Financial asset originated during the year	2	21,560	-	-	-	-	**2**	**21,560**
Financial asset matured during the year	(2)	(11,550)	-	-	-	-	**(2)**	**(11,550)**
Closing balance	**2**	**23,346**	**-**	**-**	**-**	**-**	**2**	**23,346**
Total financing								
Opening balance	1,879	377,181	9,775	171,359	2,788	6,941	**14,442**	**555,481**
Transfer between stages								
- Transfer from Stage 1 to 2	(270)	(21,389)	270	21,389	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(72)	(4,168)	-	-	72	4,168	**-**	**-**
- Transfer from Stage 2 to 3	-	-	(412)	(6,033)	412	6,033	**-**	**-**
- Transfer from Stage 2 to 1	126	4,715	(126)	(4,715)	-	-	**-**	**-**
- Transfer from Stage 3 to 1	4	12	-	-	(4)	(12)	**-**	**-**
	(212)	(20,830)	(268)	10,641	480	10,189	-	-
Re-measurement of outstanding	(208)	(14,127)	(579)	(9,291)	2,386	(961)	1,599	(24,379)
Financial asset originated during the year	389	130,469	343	118,768	1,579	4,152	2,311	253,389
Financial asset matured during the year	(144)	(65,575)	(402)	(46,381)	(112)	(444)	(658)	(112,400)
Closing balance	**1,704**	**407,118**	**8,869**	**245,096**	**7,121**	**19,877**	**17,694**	**672,091**

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2023	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Corporate and SME								
Opening balance	1,605	203,275	9,485	169,669	2,381	6,355	**13,471**	**379,299**
Transfer between stages								
- Transfer from Stage 1 to 2	(262)	(20,265)	262	20,265	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(70)	(3,626)	-	-	70	3,626	**-**	**-**
- Transfer from Stage 2 to 3	-	-	(345)	(5,721)	345	5,721	**-**	**-**
- Transfer from Stage 2 to 1	76	4,285	(76)	(4,285)	-	-	**-**	**-**
	(256)	(19,606)	(159)	10,259	415	9,347	**-**	**-**
Re-measurement of outstanding	(209)	(5,130)	(792)	(9,107)	2,045	(940)	**1,044**	**(15,177)**
Financial asset originated during the year	261	60,901	282	118,396	1,576	4,148	**2,119**	**183,445**
Financial asset matured during the year	(128)	(54,286)	(393)	(46,337)	(112)	(444)	**(633)**	**(101,067)**
Closing balance	**1,273**	**185,154**	**8,423**	**242,880**	**6,305**	**18,466**	**16,001**	**446,500**
Retail								
Opening balance	274	173,906	290	1,690	407	586	**971**	**176,182**
Transfer between stages								
- Transfer from Stage 1 to 2	(8)	(1,124)	8	1,124	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(2)	(542)	-	-	2	542	**-**	**-**
- Transfer from Stage 2 to 3	-	-	(67)	(312)	67	312	**-**	**-**
- Transfer from Stage 2 to 1	50	430	(50)	(430)	-	-	**-**	**-**
- Transfer from Stage 3 to 1	4	12	-	-	(4)	(12)	**-**	**-**
	44	(1,224)	(109)	382	65	842	**-**	**-**
Re-measurement of outstanding	1	(8,997)	213	(184)	341	(21)	555	(9,202)
Financial asset originated during the year	128	69,568	61	372	3	4	192	69,944
Financial asset matured during the year	(16)	(11,289)	(9)	(44)	-	-	(25)	(11,333)
Closing balance	**431**	**221,964**	**446**	**2,216**	**816**	**1,411**	**1,693**	**225,591**
Investments								
Opening balance	58	92,600	-	-	-	-	**58**	**92,600**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	(32)	47	-	-	-	-	**(32)**	**47**
Financial asset originated during the year	23	12,295	-	-	-	-	**23**	**12,295**
Financial asset matured during the year	(8)	(19,211)	-	-	-	-	**(8)**	**(19,211)**
Closing balance	**41**	**85,731**	**-**	**-**	**-**	**-**	**41**	**85,731**

Notes to the financial statements

For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2023	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Letter of credit / Guarantees								
Opening balance	15	3,539	101	13,321	-	-	**116**	**16,860**
Transfer between stages								
- Transfer from Stage 1 to 2	(3)	(744)	3	744	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	48	4,419	(48)	(4,419)	-	-	**-**	**-**
	45	3,675	(45)	(3,675)	-	-	**-**	**-**
Re-measurement of outstanding	(32)	(504)	10	31	-	-	**(22)**	**(473)**
Financial asset originated during the year	28	14,365	5	2,229	-	-	**33**	**16,594**
Financial asset matured during the year	(5)	(1,939)	(33)	(3,702)	-	-	**(38)**	**(5,641)**
Closing balance	**51**	**19,136**	**38**	**8,204**	**-**	**-**	**89**	**27,340**
Acceptances								
Opening balance	1	240	-	102	-	-	**1**	**342**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	1	2,412	1	198	-	-	**2**	**2,610**
Financial asset matured during the year	(1)	(240)	-	(102)	-	-	**(1)**	**(342)**
Closing balance	**1**	**2,412**	**1**	**198**	**-**	**-**	**2**	**2,610**
Unutilised limits								
Opening balance	80	48,216	180	49,180	-	-	**260**	**97,396**
Transfer between stages								
- Transfer from Stage 1 to 2	(13)	(2,045)	13	2,045	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	14	22,691	(14)	(22,691)	-	-	**-**	**-**
	1	20,646	(1)	(20,646)	-	-	**-**	**-**
Re-measurement of outstanding	(34)	(32,117)	(2)	(624)	-	-	**(36)**	**(32,741)**
Financial asset originated during the year	105	34,691	18	6,305	-	-	**123**	**40,996**
Financial asset matured during the year	(37)	(14,520)	(138)	(19,311)	-	-	**(175)**	**(33,831)**
Closing balance	**115**	**56,916**	**57**	**14,904**	**-**	**-**	**172**	**71,820**
Accrued profit								
Opening balance	4	5,907	5	4,102	1,028	999	**1,037**	**11,008**
Transfer between stages								
- Transfer from Stage 1 to 2	-	(335)	-	335	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	(81)	-	-	-	81	**-**	**-**
- Transfer from Stage 2 to 3	-	-	(1)	(240)	1	240	**-**	**-**
- Transfer from Stage 2 to 1	-	58	-	(58)	-	-	**-**	**-**
	-	(358)	(1)	37	1	321	**-**	**-**
Re-measurement of outstanding	(3)	(1,607)	2	1,779	431	146	**430**	**318**
Financial asset originated during the year	-	227	1	3,198	178	175	**179**	**3,600**
Financial asset matured during the year	-	(422)	-	(175)	(14)	(27)	**(14)**	**(624)**
Closing balance	**1**	**3,747**	**7**	**8,941**	**1,624**	**1,614**	**1,632**	**14,302**

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Balances with CBO								
Opening balance	-	21,217	-	-	-	-	-	21,217
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	(9,269)	-	-	-	-	-	(9,269)
Financial asset originated during the year	-	-	-	-	-	-	-	-
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	-	11,948	-	-	-	-	-	11,948
Banks								
Opening balance	1	13,831	-	-	-	-	1	13,831
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	1	(12)	-	-	-	-	1	(12)
Financial asset originated during the year	-	-	-	-	-	-	-	-
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	2	13,819	-	-	-	-	2	13,819
Total financing								
Opening balance	4,611	357,457	4,392	139,131	1,609	4,667	10,612	501,255
Initial application on FAS 31								
Transfer between stages	(260)	(29,907)	260	29,907	-	-	-	-
- Transfer from Stage 1 to 2	(1)	(231)	-	-	1	231	-	-
- Transfer from Stage 1 to 3	-	-	(116)	(868)	116	868	-	-
- Transfer from Stage 2 to 1	1,118	21,737	(1,118)	(21,737)	-	-	-	-
	857	(8,401)	(974)	7,302	117	1,099	-	-
Re-measurement of outstanding	(2,466)	(12,866)	754	(10,862)	764	(28)	(948)	(23,756)
Financial asset originated during the year	1,237	163,773	7,290	114,264	303	1,211	8,830	279,248
Financial asset matured during the year	(2,360)	(122,782)	(1,687)	(78,476)	(5)	(8)	(4,052)	(201,266)
Closing balance	1,879	377,181	9,775	171,359	2,788	6,941	14,442	555,481

Notes to the financial statements

For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Corporate and SME								
Opening balance	4,086	183,831	4,048	137,716	1,328	4,203	9,462	325,750
Initial application of FAS 31								
Transfer between stages	(249)	(28,971)	249	28,971	-	-	-	-
- Transfer from Stage 1 to 2	(1)	(152)	-	-	1	152	-	-
- Transfer from Stage 1 to 3	-	-	(101)	(811)	101	811	-	-
- Transfer from Stage 2 to 1	1,014	21,214	(1,014)	(21,214)	-	-	-	-
	764	(7,909)	(866)	6,946	102	963	-	-
Re-measurement of outstanding	(2,128)	(4,424)	677	(10,815)	648	(22)	(803)	(15,261)
Financial asset originated during the year	1,204	143,441	7,282	114,187	303	1,211	8,789	258,839
Financial asset matured during the year	(2,321)	(111,664)	(1,656)	(78,365)	-	-	(3,977)	(190,029)
Closing balance	1,605	203,275	9,485	169,669	2,381	6,355	13,471	379,299
Retail								
Opening balance	525	173,626	344	1,415	281	464	1,150	175,505
Transfer between stages								
- Transfer from Stage 1 to 2	(11)	(936)	11	936	-	-	-	-
- Transfer from Stage 1 to 3	-	(79)	-	-	-	79	-	-
- Transfer from Stage 2 to 3	-	-	(15)	(57)	15	57	-	-
- Transfer from Stage 2 to 1	104	523	(104)	(523)	-	-	-	-
	93	(492)	(108)	356	15	136	-	-
Re-measurement of outstanding	(338)	(8,442)	77	(47)	116	(6)	(145)	(8,495)
Financial asset originated during the year	33	20,332	8	77	-	-	41	20,409
Financial asset matured during the year	(39)	(11,118)	(31)	(111)	(5)	(8)	(75)	(11,237)
Closing balance	274	173,906	290	1,690	407	586	971	176,182
Investments								
Opening balance	150	80,112	-	-	-	-	150	80,112
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	(103)	2,090	-	-	-	-	(103)	2,090
Financial asset originated during the year	11	10,398	-	-	-	-	11	10,398
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	58	92,600	-	-	-	-	58	92,600

Notes to the financial statements

For the year ended 31 December 2023

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Letter of credit / Guarantees								
Opening balance	45	10,919	77	9,275	-	-	122	20,194
Transfer between stages	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 2	(1)	(293)	1	293	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	195	-	(195)	-	-	-	-
	(1)	(98)	1	98	-	-	-	-
Re-measurement of outstanding	(14)	(53)	(43)	(44)	-	-	(57)	(97)
Financial asset originated during the year	8	1,819	83	8,920	-	-	91	10,739
Financial asset matured during the year	(23)	(9,048)	(17)	(4,928)	-	-	(40)	(13,976)
Closing balance	15	3,539	101	13,321	-	-	116	16,860
Acceptances								
Opening balance	390	46,327	-	54	-	-	390	46,381
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	-	-	-	-	-	-	-
Financial asset originated during the year	1	240	-	102	-	-	1	342
Financial asset matured during the year	(390)	(46,327)	-	(54)	-	-	(390)	(46,381)
Closing balance	1	240	-	102	-	-	1	342
Unutilised limits								
Opening balance	86	21,273	250	27,061	-	-	336	48,334
Transfer between stages								
- Transfer from Stage 1 to 2	(1)	(1,426)	1	1,426	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	1	103	(1)	(103)	-	-	-	-
	-	(1,323)	-	1,323	-	-	-	-
Re-measurement of outstanding	(7)	4,007	(18)	16,471	-	-	(25)	20,478
Financial asset originated during the year	64	35,351	135	18,682	-	-	199	54,033
Financial asset matured during the year	(63)	(11,092)	(187)	(14,357)	-	-	(250)	(25,449)
Closing balance	80	48,216	180	49,180	-	-	260	97,396
Accrued profit								
Opening balance	9	13,042	13	7,318	836	890	858	21,250
Transfer between stages								
- Transfer from Stage 1 to 2	(1)	(1,076)	1	1,076	-	-	-	-
- Transfer from Stage 1 to 3	-	(9)	-	-	-	9	-	-
- Transfer from Stage 2 to 3	-	-	-	(5)	-	5	-	-
- Transfer from Stage 2 to 1	4	1,573	(4)	(1,573)	-	-	-	-
	3	488	(3)	(502)	-	14	-	-
Re-measurement of outstanding	(2)	136	(2)	(710)	191	61	187	(513)
Financial asset originated during the year	1	2,371	3	1,937	1	34	5	4,342
Financial asset matured during the year	(7)	(10,130)	(6)	(3,941)	-	-	(13)	(14,071)
Closing balance	4	5,907	5	4,102	1,028	999	1,037	11,008

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

Maisarah's liquidity risk management is governed by the ALM risk policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

The CBO has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. As per CBO guidelines LCR should be minimum 100% on an ongoing basis with effect from 01 January 2019 and the Window is in compliance of regulatory limit of LCR as at **31 December 2023**, with **LCR of 366.45%** (2022: 132.19%).

The NSFR is a longer-term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. Maisarah needs to maintain a minimum ratio of 100% as per the regulatory guidance. The NSFR of the Window as at **31 December 2023** is **113.40%** (2022: 123.48%) based on closing balance position.

The full report on LCR and NSFR is disclosed by the Bank in its website.

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of financial assets and liabilities including future expected cashflows:

	2023					
	Due on demand and up to 30 days *RO 000*	**More than 1 month to 6 months** *RO 000*	**More than 6 months to 12 months** *RO 000*	**More than 1 year to 5 years** *RO 000*	**Over 5 years** *RO 000*	**Total** *RO 000*
Balances with Central Bank of Oman	25,768	-	-	-	-	**25,768**
Due from banks and financial institutions	23,358	-	-	-	-	**23,358**
Total financing	148,166	53,199	60,419	286,469	312,000	**860,253**
Investments	106	8,017	22,246	55,056	12,490	**97,915**
Other assets	15,202	1,710	-	-	1,520	**18,432**
Total assets – funded	212,600	62,926	82,665	341,525	326,010	**1,025,726**
Forward purchases	3,850	-	-	-	-	**3,850**
Total assets – non funded (Forwards)	**3,850**	**-**	**-**	**-**	**-**	**3,850**
Total assets – funded and non funded	**216,450**	**62,926**	**82,665**	**341,525**	**326,010**	**1,029,576**
Current accounts	11,417	10,969	6,274	-	7,838	**36,498**
Qard Hasan from Head Office	3,309	-	15,000	10,000	-	**28,309**
Other liabilities	10,543	1,746	36	63	53	**12,441**
Wakala inter bank deposits	68,592	36,225	-	-	-	**104,817**
Wakala customer deposits	23,909	64,864	130,568	181,857	87,638	**488,836**
Equity of unrestricted investment accountholders	3,992	8,020	8,996	42,914	21,458	**85,380**
Total liabilities and accountholders equity	**121,762**	**121,824**	**160,874**	**234,834**	**116,987**	**756,281**
Forward sales	3,850	-	-	-	-	**3,850**
Letter of credit and guarantees	27,340	-	-	-	-	**27,340**
Unutilised limits for financing and receivables	71,820	-	-	-	-	**71,820**
Total liabilities non funded (Forwards)	**103,010**	**-**	**-**	**-**	**-**	**103,010**
Total liabilities funded and non funded; and accountholders equity	**224,772**	**121,824**	**160,874**	**234,834**	**116,987**	**859,291**
Gap	**(8,322)**	**(58,898)**	**(78,209)**	**106,691**	**209,023**	**170,285**
Cumulative gap	**(8,322)**	**(67,220)**	**(145,429)**	**(38,738)**	**170,285**	**-**

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of financial assets and liabilities including future expected cashflows *(continued):*

	2022					
	Due on demand and up to 30 days *RO 000*	**More than 1 month to 6 months** *RO 000*	**More than 6 months to 12 months** *RO 000*	**More than 1 year to 5 years** *RO 000*	**Over 5 years** *RO 000*	**Total** *RO 000*
Balances with Central Bank of Oman	11,948	-	-	-	-	11,948
Due from banks and financial institutions	13,819	-	-	-	-	13,819
Total financing	25,908	107,085	60,799	235,084	292507	721,383
Investments	419	11,095	12,756	77,857	4,388	106,515
Other assets	11,217	133	-	-	1,608	12,958
Total assets – funded	63,311	118,313	73,555	312,941	298,503	866,623
Forward purchases	96,250	7,700	-	-	-	103,950
Total assets – non funded (Forwards)	96,250	7,700	-	-	-	103,950
Total assets – funded and non funded	159,561	126,013	73,555	312,941	298,503	970,573
Current accounts	10,872	10,753	6,148	-	7,682	35,455
Qard Hasan from Head Office	4,405	-	35,000	-	-	39,405
Other liabilities	7,238	145	12	128	17	7,540
Wakala inter bank deposits	19,333	1,225	-	36,225	-	56,783
Wakala customer deposits	25,058	66,583	72,088	195,327	65,959	425,015
Equity of unrestricted investment accountholders	2,709	5,432	5,809	28,253	14,126	56,329
Total liabilities and accountholders equity	69,615	84,138	119,057	259,933	87,784	620,527
Forward sales	96,250	7,708	-	-	-	103,958
Letter of credit and guarantees	16,860	-	-	-	-	16,860
Unutilised limits for financing and receivables	97,936	-	-	-	-	97,936
Total liabilities non funded (Forwards)	280,121	91,846	119,057	259,933	87,784	838,741
Total liabilities funded and non funded; and accountholders equity	169,620	92,632	119,057	264,933	197,770	844,012
Gap	(120,560)	34,167	(45,502)	53,008	210,719	131,832
Cumulative gap	(120,560)	(86,393)	(131,895)	(78,887)	131,832	-

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Market risk

Fair Valuation of Securities

Given the current economic outlook, the reduction in fair valuation of certain instruments at **31 December 2023** is by **RO 54 thousand** (2022: 1,019 thousand).

Market risk includes currency risk, profit rate risk and equity price risk.

(a) Currency risk

Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani.

	2023			2022		
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
	RO 000	**RO 000**	**RO 000**	RO 000	RO 000	RO 000
US Dollars	**27,342**	**43,184**	**15,842**	93,103	74,739	18,364
Euro	**52**	**1**	**51**	23	3	20
UAE Dirham	**342**	**5**	**337**	500	4	496
Others	**99**	**-**	**99**	110	-	110
Total	**27,835**	**43,190**	**16,329**	93,736	74,746	18,990

(b) Profit rate risk

Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah has a detailed profit distribution policy in place which details the process and management of profit distribution, including setting up of profit equalization & investment risk reserve. The responsibility of profit rate risk management rests with the Maisarah’s Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. Maisarah manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Market risk *(continued)*

Profit rate sensitivity gap *(continued)*

	2023							
	Effective average profit rates %	**Due on demand and within 30 days *RO 000***	**Due within 1 to 6 months *RO 000***	**Due within 7 to 12 months *RO 000***	**Due within 1 to 5 years *RO 000***	**Due after 5 years *RO 000***	**Non-profit bearing *RO 000***	**Total *RO 000***
Cash and balances with Central Bank of Oman	-						28,725	28,725
Due from banks and financial institutions	5.23%	21,560	-	-	-	-	1,784	23,344
Murabaha and other receivables	5.47%	8,880	2,281	1,527	10,199	6,301	(87)	29,101
Mudaraba financing	5.83%	-	-	7,165	189	-	(49)	7,305
Diminishing Musharaka Financing	6.35%	57,137	33,925	34,821	163,661	176,459	(9,549)	456,454
Investments	5.39%	-	5,762	20,000	48,393	11,576	5,040	90,771
Wakala	5.50%	74,658	4,119	2,507	14,853	1,587	1,647	99,371
Ijarah Muntahia Bittamleek	5.61%	474	2,285	2,794	22,806	34,141	(334)	62,166
Property and equipment	-	-	-	-	-	-	1,319	1,319
Intangibles	-	-	-	-	-	-	800	800
Other asset	-	-	-	-	-	-	16,800	16,800
Total assets		162,709	48,372	68,814	260,101	230,064	46,096	816,156
Current accounts	0.00%	-	-	-	-	-	36,498	36,498
Qard Hasan from Head office	-	-	-	-	-	-	28,309	28,309
Other liabilities	-	-	-	-	-	-	16,258	16,258
Wakala inter bank deposits	5.30%	68,525	35,000	-	-	-	-	103,525
Wakala customer deposits	4.49%	2,230	28,395	121,061	185,184	107,141	-	444,011
Equity of unrestricted investment accountholders	1.14%	79,741	-	-	-	-	69	79,810
Owner's equity	-	-	-	-	-	-	107,745	107,745
Equity of accountholders & Total liabilities and shareholders' equity		150,496	63,395	121,061	185,184	107,141	188,879	816,156
On-balance sheet gap		12,213	(15,023)	(52,247)	74,917	122,923	(142,783)	-
Cumulative profit sensitivity gap		12,213	(2,810)	(55,057)	19,860	142,783	-	-

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

Market risk *(continued)*

Profit rate sensitivity gap *(continued)*

	2022							
	Effective average profit rates %	**Due on demand and within 30 days** ***RO 000***	**Due within 1 to 6 months** ***RO 000***	**Due within 7 to 12 months** ***RO 000***	**Due within 1 to 5 years** ***RO 000***	**Due after 5 years** ***RO 000***	**Non-profit bearing** ***RO 000***	**Total** ***RO 000***
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	14,380	14,380
Due from banks and financial institutions	4.5%	11,550	-	-	-	-	2,267	13,817
Murabaha and other receivables	5.84%	1,156	1,016	129	6,191	10,323	(256)	18,559
Mudaraba financing	5.53%	-	-	9,437	-	-	(41)	9,396
Diminishing Musharaka Financing	6.06%	10,913	118,114	61,119	72,656	124,795	(13,361)	374,236
Investments	5.70%	-	10,000	9,019	69,581	4,000	(58)	92,542
Wakala financing	6.17%	12,555	55,903	4,616	1,351	166	1,183	75,774
Ijarah Muntahia Bittamleek	5.64%	-	1	14	658	62,722	(321)	63,074
Property and equipment	-	-	-	-	-	-	651	651
Intangibles	-	-	-	-	-	-	475	475
Other asset	-	-	-	-	-	-	11,921	11,921
Total assets		36,174	185,034	84,334	150,437	202,006	16,840	674,825
Current accounts	-	-	-	-	-	-	35,455	35,455
Qard Hasan from Head office	-	-	-	-	-	-	39,405	39,405
Other liabilities	-	-	-	-	-	-	11,089	11,089
Wakala inter bank deposits	3.85%	19,250	-	-	35,000	-	-	54,250
Wakala customer deposits	3.63%	1,372	27,042	44,155	191,366	-	118,662	382,597
Equity of unrestricted investment accountholders	0.84%	54,143	-	-	-	-	50	54,193
Owner’s equity	-	-	-	-	-	-	97,836	97,836
Equity of accountholders & Total liabilities and shareholders’ equity		74,765	27,042	44,155	226,366	-	302,497	674,825
On-balance sheet gap		(38,591)	157,992	40,179	(75,929)	202,006	(285,657)	-
Cumulative profit sensitivity gap		(38,591)	119,401	159,580	83,651	285,657	-	-

Notes to the financial statements
For the year ended 31 December 2023

34 Financial risk management *(continued)*

(c) Equity risk

Equity risk is the risk that the fair value of equities held-for-trading purpose decreases as the result of changes in the level of equity indices and individual stocks. The non–trading equity risk exposure arises from equity securities classified as FVOCI.

Operational risk

Maisarah has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Maisarah to provide 15% of the average three years gross annual income as capital charge for operational risk.

35 Capital management

CBO sets and monitors capital requirements for the Bank as whole as well as individually for Islamic window. A minimum of 11% ratio of total capital to total risk-weighted assets ratio is required to be maintained by Maisarah. The regulatory capital of Islamic window is analysed into the following tiers:

- Tier I capital, which includes share capital allocated from the Head office; deduction of unrealized loss on investment at fair value through equity; and retained earnings; and
- Tier II capital, which includes the impairment provision.

	2023	2022
	RO 000	*RO 000*
Types of capital		
Tier I capital	**106,115**	96,394
Tier II capital	**4,790**	6,553
Total Regulatory Capital	**110,905**	102,947
Risk weighted assets (RWA)		
Credit risk weighted assets	**612,150**	541,475
Market risk weighted assets	**12,916**	4,717
Operational risk weighted assets	**82,142**	71,614
Total risk weighted assets	**707,208**	617,806
Capital ratios		
Tier I capital ratio (%)	**15.00%**	15.60%
Total capital as a % of RWA	**15.68%**	16.66%

36 Segmental information

Maisarah is organised into three main business segments:

(1) Retail banking – incorporating private customer current accounts, savings account, term deposits, Murabaha, Diminishing Musharaka financing and Ijarah Muntahia Bittamleek;

(2) Corporate banking – incorporating current accounts, savings account, term deposits, Murabaha, Mudaraba, Wakala and Diminishing Musharaka financing; and

(3) Treasury & investments

Segment assets and liabilities including quasi-equity comprise operating assets and liabilities.

Notes to the financial statements
For the year ended 31 December 2023

36 Segmental information *(continued)*

	2023			
	Retail banking *RO 000*	**Corporate banking** *RO 000*	**Treasury and investments** *RO 000*	**Total** *RO 000*
Segment operating revenue	**4,211**	**13,476**	**613**	**18,300**
Other revenues	**691**	**2,719**	**1,188**	**4,598**
Total segment operating revenue	**4,902**	**16,195**	**1,801**	**22,898**
Segment cost				
Operating expenses including depreciation	**(3,776)**	**(6,206)**	**(1,217)**	**(11,199)**
Net impairment	**(731)**	**(2,342)**	**17**	**(3,056)**
Net profit for the year before tax	**395**	**7,647**	**601**	**8,643**
Segment assets	**226,878**	**462,775**	**144,174**	**833,827**
Less: Provision for impairment	**(1,679)**	**(15,949)**	**(43)**	**(17,671)**
Total segment assets	**225,199**	**446,826**	**144,131**	**816,156**
Segment liabilities & Quasi equity	**275,104**	**296,621**	**136,686**	**708,411**

	2022			
	Retail banking *RO 000*	**Corporate banking** *RO 000*	**Treasury and investments** *RO 000*	**Total** *RO 000*
Segment operating revenue	4,971	14,091	1,410	20,472
Other revenues	494	1,288	779	2,561
Net operating income	5,465	15,379	2,189	23,033
Segment cost				
Operating expenses including depreciation	(4,906)	(5,229)	(1,304)	(11,439)
Provision for impairment	181	(3,524)	91	(3,252)
Net profit for the year before tax	740	6,626	976	8,342
Segment assets	177,065	390,167	122,094	689,326
Less: Provision for impairment	(964)	(13,477)	(60)	(14,501)
Total segment assets	176,101	376,690	122,034	674,825
Segment liabilities & Quasi equity	152,469	327,407	97,113	576,989