بنك ظفار
BankDhofar

LEADING WITH PURPOSE

Annual Report 2022

بنك ظفار
BankDhofar

THE **POWER** OF **LEADING**

His Majesty

Sultan Haitham Bin Tarik

TABLE OF CONTENTS

THE **BOARD OF DIRECTORS' REPORT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present the Bank's financial statements for year ended 31 December 2022.

Consequent to the meticulous vaccination campaigns and opening of commercial activities, Oman's economy continues to display signs of gradual recovery. Oman's average oil price was US$ 96/b during the year 2022 which was 60% higher than the budgeted oil price of US$ 60/b. As per preliminary results of 2022, the budget is expected to generate a surplus of RO 1,146 million against a budgeted deficit of RO 1,550 million for the financial year 2022, this is attributable to the increase in oil prices. Oman's economic recovery was also corroborated by the credit rating agencies. During the year 2022, key credit rating agencies i.e. Standards & Poor's, Fitch and Moody's affirmed Oman's credit rating and upgraded the outlook as BB (Stable), Ba3(Positive), BB(Stable) respectively.

2022 Financial Overview

The key highlights of Bank's financials are summarized below

	31 December 2022	31 December 2021	Growth
	RO million	RO million	%
Net Interest Income and Income from Islamic Financing	**122.42**	102.42	19.53%
Operating income	**143.15**	126.45	13.21%
Operating expenses	**69.68**	72.34	(3.68)%
Expected credit losses (net of recovery of bad debts)	**33.26**	24.65	34.93%
Net profit for the year	**34.17**	25.12	36.03%
Total assets	**4,317.33**	4,438.79	(2.74)%
Net loans and Islamic financing	**3,430.49**	3,346.22	2.52%
Customer deposits	**2,891.82**	2,975.64	(2.82)%
Total equity	**717.08**	698.52	2.66%

The Bank reported net profit of RO 34.17 million for the year ended 31 December 2022 compared to RO 25.12 million for the comparative year which represents an increase of 36.03%.

The Bank's interest income on loans and Islamic financing receivables reached to RO 221.27 million compared to RO 206.72 million resulting year on year (YoY) growth of 7.04%. However, a decrease in interest expenses enhanced growth in net interest income and recorded YoY increase of 19.53%. Consequent to decrease in interest expense, the net interest and financing income showed increased trend and stood at RO 122.42 million for the year ended 31 December 2022 compared to RO 102.42 million for the year 2021.

Non-funded income declined by 13.66% by reaching RO 20.74 million compared to RO 24.02 million for the year 2022 and 2021 respectively.

Total operating income stood at RO 143.15 million for the year ended December 2022 versus RO 126.45 million for the comparative period of 2021, showing increase of 13.21%. The Bank's operating expenses for the year ended 31 December 2022 were lower than last years by 3.68% and declined to RO 69.68 million compared to RO 72.34 million during the previous financial year. Due to higher operating income and lower costs, the Bank's cost to income ratio improved to 48.7% as at 31 December 2022 compared to 57.21% in the last year.

Net loans and advances including Islamic financing exhibited YoY increase of 2.52% and reached to RO 3.43 billion as at 31 December 2022 compared to the RO 3.35 billion at the 31 December 2021. Customer Deposits including Islamic deposits, on the other hand, witnessed a reduction and recorded YoY decline of 2.82%. In absolute terms, customer deposits reduced to RO2.89 billion as at 31 December 2022 compared to RO 2.98 billion as at end of previous comparative year.

Net Expected Credit Loss 'ECL' for the year 2022 stood at RO 33.27 million after recoveries of RO 11.25 million as compared to RO 24.65 million after recovery of 10.29 million for the year 2021, an increase of RO 8.6 million. Gross NPL (Non-performing loans) increased to 5.87% as at 31 December 2022 from 5.11% as at 31 December 2021. Net NPL, net of interest reserve and ECL is 2.00% as at 31 December 2022 compared to 1.91% at 31 December 2021. The coverage ratio has improved from 93.29% as at 31 December 2021 to 100.98% as at 31 December 2022.

The earnings per share (EPS) for the year ended 31 December 2022 was RO 0.008 as compared to RO 0.005 for the corresponding previous year. The ROSE increased from 4.64% as at 31 December 2021 to 6.19% as at 31 December 2022.

Maisarah Islamic Banking Services - Financial Performance Highlights

Bank Dhofar (SAOG) Islamic Banking Window as at 31 December 2022, showed significant growth in its key financial metrics. The gross income from financing, placement, and investment increased by 8.56% to RO 36.46 million as at 31 December 2022 from RO 33.59 million reported during the same period last year. The net financing income (after the cost of funds) as at 31 December 2022 increased by 11.07%, to RO 20.47 million as compared to RO 18.43 million reported at 31 December 2021. Maisarah's total revenue for the period ended December 2022 stood at RO 23.03 million compared to RO 20.14 million at December 2021, a growth of 14.35%.

Maisarah posted year to date Operating Profit (before ECL) of RO 11.59 million as at December 2022, which is 25.84% above the last year's December 2021 operating profit of RO 9.21 million. The cost-to-income ratio of 49.66% as at December 2022 has shown improvement over the last year's ratio of 43.65% as at December 2021.

Maisarah as at 31 December 2022, posted a profit before tax of RO 8.34 million compared to RO 8.92 million as of 31 December 2021, reflecting a drop of 6.50% over last year mainly due to higher ECL resulting from prudent measures taken by the bank during the year and the increase in cost sharing by HO due to change in accounting estimates. Had the same impact of change in accounting estimate for cost sharing by HO with Maisarah applied last year, the profit before tax for the year ended 2021 would have been RO 6.78 million. Hence, the resulting growth in profit before tax in 2022 would be 23.01% over last year.

On the statement of financial position, Maisarah's gross financing portfolio has grown to RO 555.48 million at 31 December 2022 from RO 501.26 million at 31 December 2021, thus registering a growth of 10.82% over last year. The Sukuk investment portfolio increased by 13.70% from RO 81.91 million as at 31 December 2021 to RO 93.13 million as at 31 December 2022.

The total customer deposits of Maisarah reached RO 472.20 million as at 31 December 2022, posting a growth of 8.05% compared to OMR 437.02 million at 31 December 2021.

Capital Adequacy

In terms of capital soundness, the Bank carries strong capital position of Core Equity Tier 1 Ratio (CET-1) of 12.91% as at 31 December 2022 (2021: 12.89%), Tier 1 Capital Ratio of 16.74% (2021: 16.75%) and total Capital Adequacy Ratio of 17.61% (2021: 17.74%), compared to Regulatory Minimum of 8.25%, 10.25% and 12.25% respectively. During the year the bank successfully issued OMR 115.5 million Tier 1 perpetual securities (AT1 bonds) by way of private placement to investors, replacing the USD 300 million (AT1 bond).

Distributed & Proposed Dividends

Considering the market conditions and to preserve the capital through internally generated profits, the Board of Directors in their meeting held on 25 January 2023 proposed 5% cash dividend and nil bonus share issue distribution for the year ended 31 December 2022, subject to Regulatory and Shareholders approval.

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

Year	2017	2018	2019	2020	2021
Cash Dividends	12%	10%	3%	4%	2%
Bonus Shares	8%	7%	Nil	Nil	Nil

Corporate Social Responsibility and Sustainability

In continuation of its ongoing efforts to make meaningful contributions towards the community, Bank Dhofar supported the Omani Association for People with Hearing Impairment, to provide hearing aids for people with hearing impairment. Bank Dhofar has always placed great importance on the development of the society, through supporting the organizations contributing to bring meaningful changes to individuals as well as community.

Awards & Accolades

Being a customer centric and innovation focused organization, the Bank continues to develop and offer retail, corporate and investment banking solutions to enhance customer experience. This was evidenced with the Bank receiving following awards during 2022.

- Digital Transformation of the Year by the ABF Retail Banking Awards 2022
- Islamic Banking Initiative of the Year by the ABF Retail Banking Awards 2022
- Best Banking CEO Oman by World Economic Magazine
- Best Islamic Digital Banking Services Oman (Maisarah Islamic Banking Services) by World Economic Magazine
- Top Omani Brand Award in the Banking Category by Alam Al Iktisad magazine
- Best Digital Transformation Bank – Sultanate of Oman 2022 by Global Economics Awards
- Most Innovative Marketing and Branding Campaigns in Banking – Sultanate of Oman 2022 by Global Economics Awards
- Best Corporate Bank - Sultanate of Oman 2022 by Finance Derivative Magazine
- Best Investment Bank - Sultanate of Oman by Global Banking & Finance Awards
- Straight-Through-Processing (STP) Award by CITI Bank
- Best Corporate Bank - Sultanate of Oman by International Business Magazine Awards
- Best Digital Transformation in the Banking Sector Award at the OER Business Summit

The Year Ahead (2023)

Oman's 2023 State Budget envisioned continuation of ongoing economic recovery. The 2023 Budget assumes an oil price of US$ 55 per barrel with an average oil production of 1.18 million barrels per day. The top priorities of the 2023 Budget include fiscal sustainability and economic diversification and has embarked on projects to improve the fiscal performance through the establishment of an integrated Gas Company, social protection systems government service companies, etc.

Acknowledgment

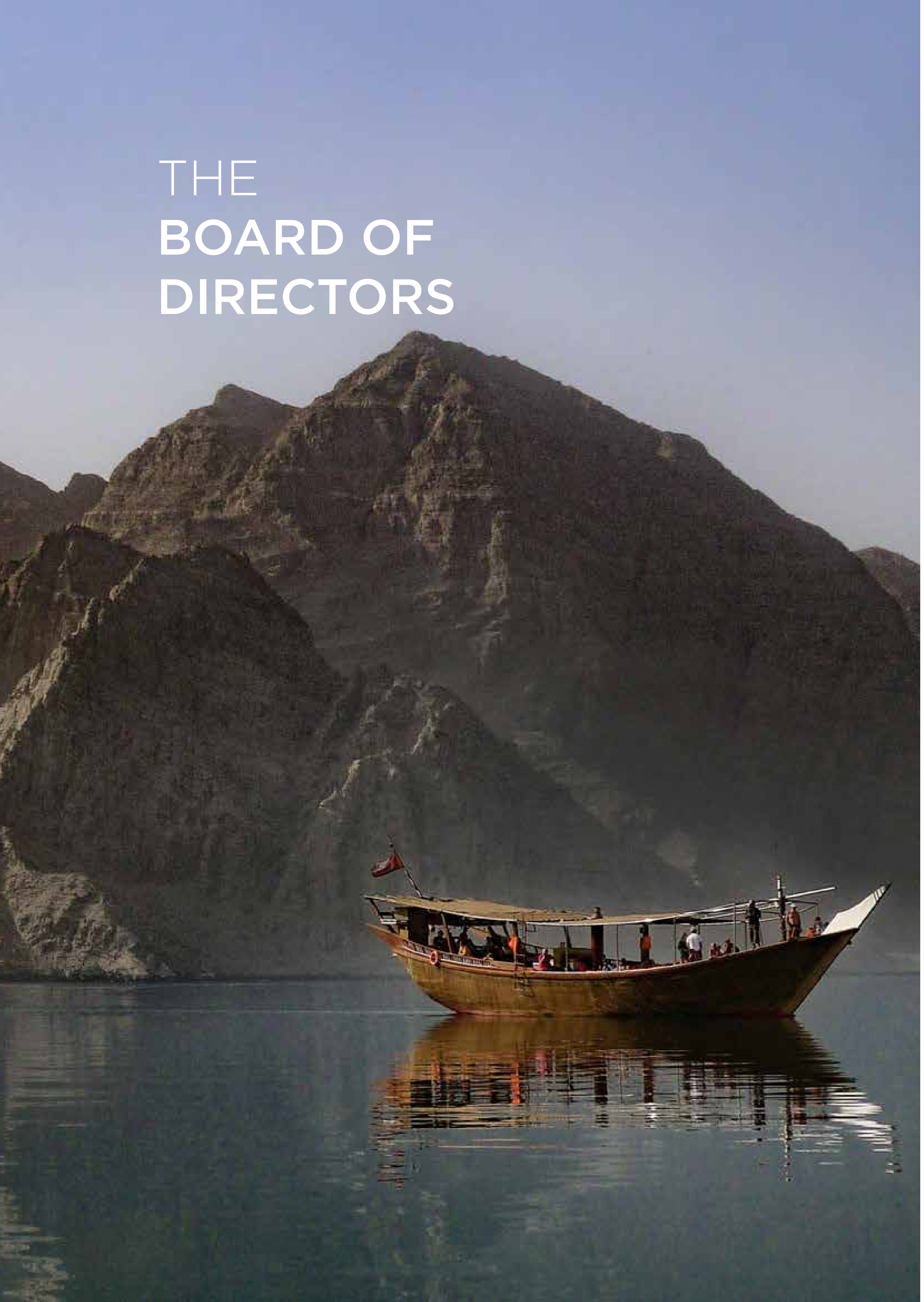
On behalf of the Board, I would like to thank our valuable customers for their patronage and the confidence they have reposed in the Board of Directors and the Executive Management. I convey my gratitude to the shareholders, Sharia Supervisory Board of Maisarah Islamic Banking Services, Management and Staff for their relentless efforts and contributions during the year 2022.

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



THE BOARD OF DIRECTORS

Eng. Abdul Hafidh Salim Rajab Al Ojaili
Basis of Membership:
Chairman Non-executive
Non-Independent
Shareholder Director

Mr. Ahmed Said Mohammed Al Mahrezi
Basis of Membership:
Vice-Chairman Non-executive
Independent Non-shareholder Director
No. of other directorships held: 1

Mr. Mohammed Yousuf Alawi Al Ibrahim
Basis of Membership:
Member Non-executive Non-Independent
Representative Shareholder Director
No. of other directorships held: 1

Mr. Tarik Abdul Hafidh Salim Al Aujaili
Basis of Membership:
Member Non-executive Non-Independent
Representative Shareholder Director
No. of other directorships held: 3

Mr. Hamdan Abdul Hafidh Al Farsi
Basis of Membership:
Member Non-executive Independent
Non-shareholder Director
No. of other directorships held: 1

Mr. Faisal Mohammed Moosa Al Yousef
Basis of Membership:
Member Non-executive Independent
Representative Shareholder Director
No. of other directorships held: 0

Sheikh Khalid Said Salim Al Wahaibi
Basis of Membership:
Member Non-executive Independent
Representative Shareholder Director
No. of other directorships held: 0

Sheikh Tariq Salim Mustahil Al Mashani
Basis of Membership:
Member Non-executive Independent
Representative Shareholder Director
No. of other directorships held: 1

Sheikh Ahmed Sultan Rashid Al Yaqoubi
Basis of Membership:
Member Non-executive Non-Independent
Non-shareholder Director
No. of other directorships held: 0

THE EXECUTIVE TEAM

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

Karumathil Gopakumar
Deputy Chief Executive Officer

Kamal Uddin Hassan Al Maraza
Chief Maisarah Islamic Banking Officer

Faisal Hamed Sulaiman Al Wahaibi
Chief Government Banking & Investment Banking Officer

Ahmed Said Salim Al Ibrahim
Chief Corporate Services Officer

Mallikarjuna Korisepati
Chief Wholesale Banking Officer

Dr. Tariq Saleh Mohammed Taha
Chief Information Officer

Amjad Iqbal Hassan Al Lawati
Chief Retail Banking Officer

Dr. Khalid Salim Ali Al Hamadani
Chief Human Resource Officer

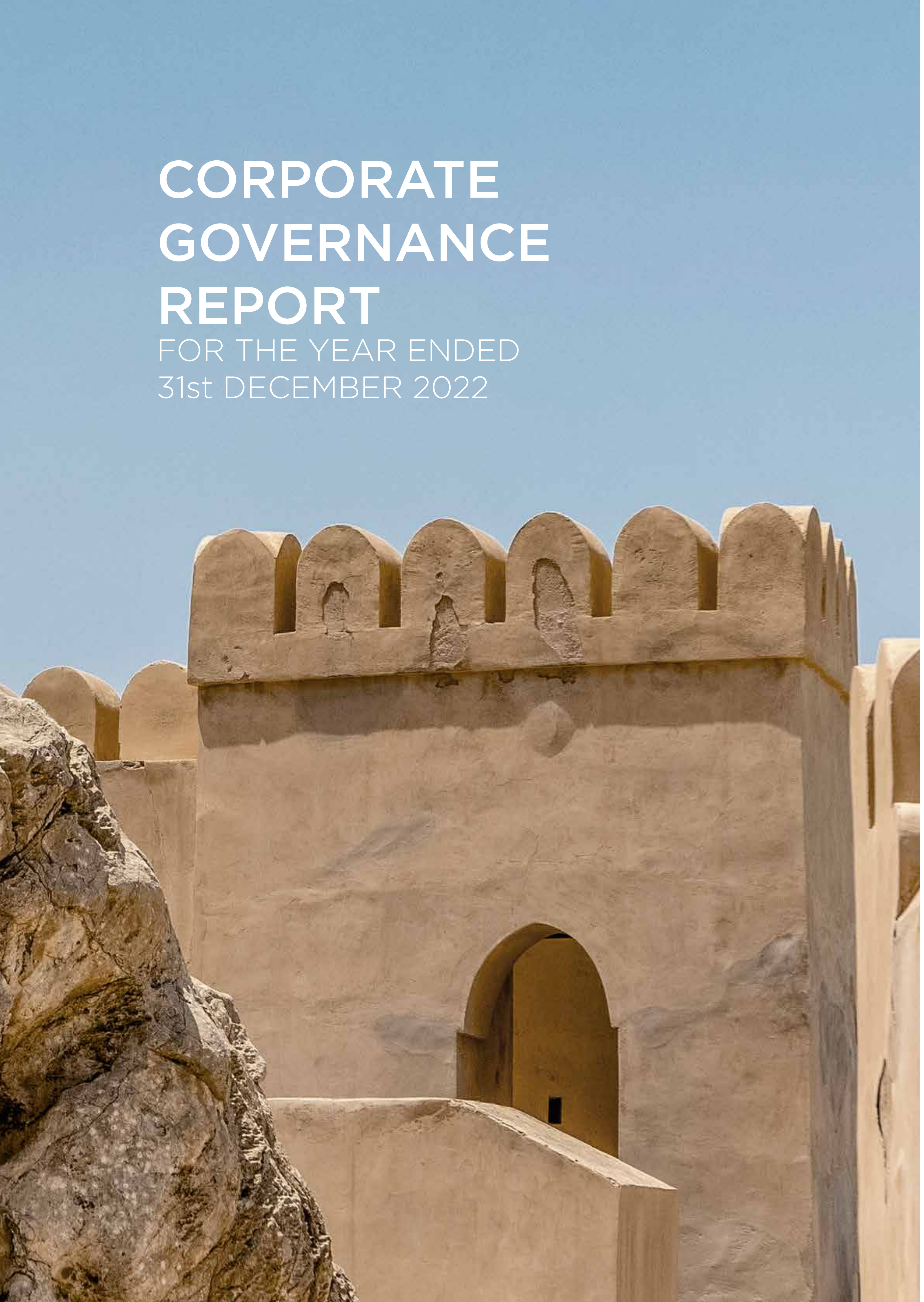
Vikesh Mirani
Chief Financial Officer

Leen Kumar Sugumaran
Chief Risk Officer

Ali Mohammed Al Alawi
AGM & Head of Compliance

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31st DECEMBER 2022



Agreed-upon procedures report on factual findings in connection with the Corporate Governance Report

To the Board of Directors of Bank Dhofar SAOG

Purpose of this Agreed-upon Procedures Report

Our report is solely for the purpose of assisting the directors of Bank Dhofar SAOG (the "Bank") in determining whether their Corporate Governance Report is in compliance with the Code of Corporate Governance (the "Code") of the Capital Market Authority of the Sultanate of Oman ("CMA"), as prescribed in the CMA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code") and may not be suitable for another purpose.

Responsibilities of the directors

The directors of the Bank have prepared the Corporate Governance Report ("the Report") and remain solely responsible for it and are also responsible for identifying and ensuring that the contents of the Report comply with the Code. The directors are also responsible for determining that the scope of the agreed-upon procedures is appropriate and sufficient for the purposes of the engagement.

Our Responsibilities

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

This agreed-upon procedure engagement is not an audit or assurance engagement made in accordance with generally accepted auditing or assurance standards, the objective of which would be the expression of assurance on the contents of the Report. Accordingly, we do not express such assurance.

Had we performed additional procedures, or had we performed an audit or assurance engagement on the Report, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

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

We apply the International Standard on Quality Management (ISQM) 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos, P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290, Commercial Register No. 1230865, Tax Card No 8055889

pwc

Agreed-upon procedures report on factual findings in connection with the Corporate Governance Report

To the Board of Directors of Bank Dhofar SAOG (continued)

Procedures and Findings

We have performed the procedures described below, which were agreed with the Bank in the terms of our engagement letter dated 21 December 2022, on the compliance of the Report with the Code for the year ended 31 December 2022.

No.	Procedures	Findings
(a)	We obtained the Corporate Governance Report issued by the Board of Directors and compared its contents to the minimum requirements of the CMA as set out in Annexure 3 of the Code.	No exceptions noted.
(b)	We obtained from the Bank details of the areas of non-compliance with the Code identified by the Bank, as set out in its Board minutes and in its non-compliance checklist and compared these with those included in the Report in the section "Details of non-compliance and penalties, together with the reasons for such non-compliance for the year ended 31 December 2022". Additionally, we obtained written representations from the directors that there were no other areas of non-compliance with the Code for the year ended 31 December 2022, of which they were aware.	No exceptions noted.

Our report is intended solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose.

This report relates only to the accompanying Corporate Governance Report of the Bank to be included in its annual report for the year ended 31 December 2022 and does not extend to the Bank's financial statements taken as a whole.

PricewaterhouseCoopers

PricewaterhouseCoopers LLC
Muscat, Sultanate of Oman
2 March 2023

برايس وترهاوس كوبرز ش.م.م
C.R. No 1230865
PricewaterhouseCoopers LLC

Corporate Governance Report

Part One

1 - Corporate Governance Philosophy:

Corporate Governance is an essential element in attaining, enhancing and retaining confidence of the Bank's stakeholders. Corporate governance lays down the relationship and responsibilities between shareholders, Board of directors and senior management of the Bank through the structure of setting objectives, formulating strategies, controlling and monitoring performance while ensuring compliance with regulations in letter and spirit and promoting a culture of transparency through disclosures and commitment to highest ethical standards.

The Board of Directors of Bank Dhofar SAOG (the Bank) bears the principal responsibility of establishing Corporate Governance as appropriate to the Bank within the broad framework laid down by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA).

Decision-making within the Bank has been broadly divided into two levels. The Board of Directors (the Board) at the top level, as trustees of the shareholders, bears the responsibility of strategic supervision of the Bank, apart from fulfilling statutory obligations. Some of the major responsibilities of the Board are discharged through four sub-committees, viz. the Board Executive Committee, the Board Audit Committee, the Board Risk Committee and the Board Nomination & Remuneration Committee. These sub-committees which operate under the Board approved charters have been meeting regularly and have contributed significantly to the effective functioning of the code of corporate governance. The charters of these committees meet all the requirements as laid down in the Code of Corporate Governance. In addition, the Board carries the responsibility of approving the strategic plans and internal policies to institute adequate controls for achievement of the set objectives and compliance with rules and regulations. The executive management of the Bank comprises of the Senior Members headed by the Chief Executive Officer.

Through this two-tiered interlinked governance process, an appropriate balance has been created between the need for focus and executive freedom, and the need for supervision, control and checks and balances of all activities and transactions.

The formal Code of Corporate Governance prescribes the highest ethical standards in the conduct of the Bank's business. The Senior Members of the Bank are fully cognizant of their responsibilities in setting personal examples so that the code is internalized within the Bank and becomes part of its culture.

2 - Board of Directors

The Responsibilities of the Board of Directors

The Board has the full authority to perform all acts required for managing the Bank and protecting and growing the shareholders' interests pursuant to its objectives besides securing the interests of other stakeholders. Such authority is not limited or restricted except as provided by the law, the Articles of Association or resolutions of the General Meetings. However, such authority is not extended to the operational matters and day-to-day affairs of the Bank which remains a responsibility of the Senior Management.

The responsibilities and functions of the Board include the following:

- Charting the overall strategic direction of the Bank and reviewing and approving the annual business and strategic plans.
- Monitoring the Bank's performance and evaluating whether the business is properly managed in accordance with the Bank's set plans.
- Approving the interim and annual financial statements and providing accurate information at the right time to the shareholders, in accordance with the guidelines of the Capital Market Authority.
- Forming various Board sub-committees, approving their charters and reviewing the functions of these committees.
- Adopting internal regulations and bylaws pertinent to steering and management of the affairs of the Bank.

- Reviewing all audit reports submitted by internal and external auditors and statutory agencies.
- Ensuring that the Bank conducts its operations in an ethical and transparent manner.
- Assessing and approving the proper delegation of authorities to executive management.
- Appointing and evaluating the functions and the performance of the Chief Executive Officer and other key employees.

Further, the Board exercises objective independent judgment on corporate affairs after having access to accurate, relevant and timely information.

Size and Terms of the Board

The Board consists of nine (9) non-executive directors who are elected by the shareholders at the Annual General Meeting. The term of office of the Board of Directors is three years and each Director can be re-elected for a similar period. The term of office of the current Board expires in March 2025.

Composition and selection of the Board

Members of the Board of Directors are elected from among the Bank's shareholders or non-shareholders. All members of the Board of Directors are non-executive Directors.

A minimum of one-third of the Board members shall be independent Directors, meeting the definition of independent director, as defined in the CMA Code of Corporate Governance issued in July 2015, which states that a director shall be deemed non-independent in the following cases:

(a) Holding ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.

(b) Representing a juristic person who holds ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.

(c) Had been, during the two years preceding candidacy or nomination to the board, a senior executive of the company, its parent company or any of its subsidiary or associate companies.

(d) Being a first degree relative of any of the directors of the company, its parent company or any of its subsidiary or associate companies.

(e) Being a first degree relative of any of the senior executives of the company, its parent company or any of its subsidiary or associate companies.

(f) Being a director of the parent company or any of the subsidiary or associate companies of the company being nominated for its board membership.

(g) Being, during the two years preceding candidacy or nomination to the board, an employee of any parties contractually engaged with the company (including external auditors, major suppliers or civil society organizations ("CSO") where the latter received a support in excess of 25% of the annual budget of such CSOs).

(h) Being, during the two years preceding candidacy or nomination to the board, an employee of the parent company or any of its subsidiary or associate companies.

(i) Holding about 20% of the shares of any of the above-mentioned parties during the two years preceding candidacy or nomination to the board.

The nomination of Board members is according to the rules and condition of the election of directors as issued by CMA. The election process is through direct secret ballot whereby each shareholder shall have a number of votes equivalent to the number of shares he/she holds. Every shareholder shall have the right to vote for one candidate or more provided the total number of votes in the voting form is equivalent to the number of shares he/she holds.

At present all the directors of the Board are non-executive, three are non- Independent and six are Independent within the scope of the definition of independence laid down by the CMA Code of Corporate Governance.

Board Committees

The Board has the following four Board Committees, whose objectives, powers and procedures are governed by the charters of the respective Committees, which are approved by the Board:

1. Board Executive Committee
2. Board Audit Committee
3. Board Risk Committee
4. Board Nomination & Remuneration Committee

Additional committees may be established from time to time based on business needs. Each committee has access to the information and resources it requires, including direct access to staff and consultants. The Board has selected the committee members based on their professional backgrounds, skills and other qualities they bring to the committees.

Sharia Supervisory Board

Sharia Supervisory Board was formed in the year 2012 for the Islamic Banking operations of the Bank's window, Maisarah Islamic Banking Services (Maisarah).

3 - Profiles of Members of the Board of Directors

Eng. Abdul Hafidh Salim Rajab Al Ojaili - Chairman

Eng. Abdul Hafidh Salim Rajab Al Ojaili is currently the Chairman of Bank Dhofar. He is the Chairman of the Board Executive Committee. He is a promoter shareholder of well-established institutions in Oman such as Bank Dhofar, Dhofar International Development & Investment Holding Co. SAOG, Dhofar Power Company SAOC and Oman Aviation Services Co. (SAOG). He holds master's degree in mechanical engineering.

Mr. Ahmed Said Al Mahrezi - Deputy Chairman

Mr. Ahmed Said Al Mahrezi is a member of the Board of Directors. He is also the Deputy Chairman of the Board, the Chairman of the Board Nomination & Remuneration Committee, a member of the Board Risk Committee and a member of the Board Audit Committee. He has extensive experience in the public sector in Law, Finance, Investment & Administration, extending over a period of more than 35 years. Mr. Ahmed holds a Master of International Business Law.

Mr. Mohammed Yousuf Alawi Al Ibrahim - Director

Mr. Mohammed Yousuf Al Ibrahim is a member of the Board of Directors. He is also a member of the Board Executive Committee, a member of the Board Risk Committee and a member of the Board Nomination & Remuneration Committee. He has extensive experience in directorship of private and public companies. His diverse portfolio includes being Shareholder, Executive & Managing Director of various private companies & Establishments. He is a Director of Dhofar University. Mr. Mohammed holds a Bachelor of Business Administration.

Mr. Tariq Abdul Hafidh Al Aujaili - Director

Mr. Tariq Abdul Hafidh Al Aujaili is a member of the Board of Directors. He is also the Chairman of the Board Risk Committee and a member of the Board Nomination & Remuneration Committee. He has extensive experience of public companies' directorship. Other positions held by him include Vice Chairman of Dhofar International. Development & Investment Holding Co. SAOG, Vice Chairman of Dhofar Insurance Co SAOG and Vice Chairman of Oman Investment & Finance Co SAOG. Mr. Tariq holds a Bachelor of Accountancy & Finance.

Dr. Hamdan Abdul Al Hafidh Al Farsi - Director

Mr. Hamdan Abdul Al Hafidh Farsi is a member of the Board of Directors. He is also the Chairman of the Board Audit Committee. He currently holds the position of Director of Risk Management at the Public Authority for Social Insurance (PASI). He is a director of National Gas Co SAOG. He has a wealth of experience extending for 27 years in Finance, Internal Audit and Risk Management. Mr. Hamdan Al Farsi holds a Bachelor, Master degree in Accountancy and PhD in Management.

Mr. Faisal Mohamed Moosa Al Yousef - Director

Mr. Faisal Mohamed Moosa Al Yousef is a member of the Board of Directors and a member of the Board Executive Committee He is the Chairman of Muscat Finance Co SAOG and a member of the Board of Directors of Dhofar International Development and Investment Holding Co SAOG. He is the Chief Executive Officer of Al Yousef Group. Mr. Faisal holds a Bachelor of Economics and is a fellow of the Association of Chartered Certified Accountants, U.K.

Sheikh Khalid Said Salim Al Wahaibi - Director

Sheikh Khalid Said Salim Al Wahaibi is a member of the Board of Directors, a member of the Board Executive Committee and a member of the Board Audit Committee. He is the Chairman of Al Omaniya Financial Services Co SAOG and Deputy Chairman of National Gas Co SAOG. He has a wealth of experience extending over 26 years as a Director and Managing Director of Assarain Group of Companies. Sheikh Khalid holds a Bachelor of Business Administration.

Sheikh Tariq Salim Mustahil Al Mashani - Director

Sheikh Tariq Salim Mustahil Al Mashani is a member of the Board of Directors, a member of the Board Executive Committee, a member of the Board Risk Committee and a member of the Board Nomination & Remuneration Committee. He is a Chairman of Dhofar University and Board Director of Al Omaniya Financial Services SAOG. He has extensive experience in directorship of private companies. His diverse portfolio includes being Shareholder, Chairman and Director of various private companies & establishments. Sheikh Tariq holds a Bachelor of Business Management.,

Mr. Ahmed Sultan Al Yaqoubi - Director

Mr. Ahmed Sultan Al Yaqoubi has 24 years of work experience in the Ministry of Defense Pension Fund and has significantly contributed to the overall development of Fund and he was a core member of the Investment Team since the inception, graded with a global title in experience, as an expert in project management, real estate and the investment industry. He has significant experience in all aspects of project management. He has served also on the Boards of Directors of Public listed companies e.g. Sohar Power & National Aluminum Products Co. Mr. Ahmed Al Yaqoubi holds a bachelor degree in Commerce & Economics.

Part Two

1 - Members of the Board of Directors

The Board of Directors of Bank Dhofar (SAOG) consists of the following:

S. NO.	Name of Director	Basis of membership			No. of other directorships held in SAOG Companies
1	Eng. Abdul Hafidh Salim Rajab Al-Ojaili	Chairman Non-executive	Non-independent	Shareholder Director	-
2	Mr. Ahmed Said Mohammed Al Mahrezi	Deputy Chairman Non-executive	Independent	Non-shareholder Director	-
3	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member Non-executive	Independent	Non-shareholder Director	-
4	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	Member Non-executive	Non-independent	Non-shareholder Director	3
5	Mr. Zakariya Mubarak Al Zadjali *	Member Non-executive	Independent	Non-shareholder Director	-
6	Mr. Hamdan Abdul Al Hafidh Al Farsi	Member Non-executive	Independent	Non-shareholder Director	1
7	Mr. Faisal Mohammed Moosa Al Yousef	Member Non-executive	Non-independent	Non-shareholder Director	3
8	Sheikh Khalid Said Salim Al Wahaibi	Member Non-executive	Independent	Non-shareholder Director	2
9	Sheikh Tariq Salim Mustahil Al Mashani	Member Non-executive	Independent	Non-shareholder Director	2
10	Mr. Ahmed Sultan Al Yaqoubi **	Member Non-executive	Independent	Non-shareholder Director	-

* Mr. Zakariya Mubarak Al Zadjali was not nominated in AGM held on 22 March 2022.
** Mr. Ahmed Sultan Al Yaqoubi was nominated in AGM held on 22 March 2022.

The Board of Directors held 9 meetings during 2022, as follows:

27 January 2022	22 March 2022	28 March 2022	27 April 2022
5 June 2022	27 July 2022	30 August 2022	27 October 2022
21 December 2022			

Details of meetings and remuneration of the Board of Directors of Bank Dhofar (SAOG) are as follows:

S. NO.	Name of Director	No. of meetings attended	Directors' benefits (Amount in OMR)	
			Sitting Fees Paid	Remuneration Proposed
1	Eng. Abdul Hafidh Salim Rajab Al-Ojaili	9	10,000	35,500
2	Mr. Ahmed Said Mohammed Al Mahrezi	9	10,000	34,000
3	Mr. Mohammed Yousuf Alawi Al Ibrahim	4	7,200	32,500
4	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	9	10,000	34,000
5	Mr. Zakaria Mubarak Al Zadjali *	1	1,400	7,212
6	Mr. Hamdan Abdul Al Hafidh Al Farsi	8	10,000	34,000
7	Mr. Faisal Mohammed Moosa Al Yousef	9	7,000	32,500
8	Sheikh Khalid Said Salim Al Wahaibi	7	10,000	32,500
9	Sheikh Tariq Salim Mustahil Al Mashani	8	10,000	32,500
10	Mr. Ahmed Sultan Al Yaqoubi **	8	7,200	25,288
	Total		**82,800**	**300,000**

* Mr. Zakariya Mubarak Al Zadjali was not nominated in AGM held on 22 March 2022.
** Mr. Ahmed Sultan Al Yaqoubi was nominated in AGM held on 22 March 2022

2 - Sharia Supervisory Board (SSB)

The SSB consists of five members. The objectives of SSB include:

- To provide the Sharia rulings in all activities of the Islamic Banking Window (IBW)
- To supervise the compliance of the IBW with Islamic Sharia rules
- To enhance the IBW contribution in spreading the awareness and contribute in development of the Islamic banking.

The Sharia Supervisory Board for the period from 1/1/2022 to 22/3/2022 has held 1 meeting.

S. NO.	Name of SSB Members from 1/1/2022 to 22/3/2022	Designation	No. of meetings attended	Honorarium (Amount in OMR)	
				Fees Paid	Remuneration Proposed (Amount Paid in 2022)
1	Sheikh Dr. Salim Bin Ali bin Ahmed Al Dhahab	Chairman	1	600	2,250
2	Sheikh Dr. Abdullah bin Mubarak Al Abri	Deputy Chairman	Resigned in 2021	-	-
3	Sheikh. Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member	1	500	1,750
4	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member	1	500	1,750
5	Sheikh Dr. Mohammad Ameen Ali Qattan	Member (Non-Voting)	1	500	1,750

The annual general meeting held on 22 March 2022 appointed new SSM members and they have held 4 meetings as follows:

S. NO.	Name of SSB Members from 23/3/2022 to 31/12/2022	Designation	No. of meetings attended	Honorarium (Amount in OMR)	
				Fees Paid	Remuneration Proposed (Amount Paid in 2022)
1	Sheikh Abdullah Bin Ali Al Shahri	Chairman	4	2,400	6,750
2	Sheikh Azzan bin Nasser bin Farfoor Al Amri	Deputy Chairman	4	2,200	5,625
3	Sheikh Dr. Abdul Rub bin Salim bin Abdul Rub Al Yafai	Member	4	2,000	5,250
4	Sheikh Hilal bin Hassan bin Ali Al Lawati	Member	4	2,000	5,250
5	Sheikh Dr. Amin Fateh	Member	4	2,000	5,250

3 - Board Executive Committee (BEC)

The BEC comprises five members of the Board of Directors and meets as and when there is a business need. The Board Executive committee (BEC) is entrusted to guide the Bank management on three key strategic areas:

1. Approval of credit proposals - The BEC is responsible for approving certain credit proposals and overseeing the Bank's credit policy framework. The responsibilities of the BEC include reviewing and approving specific transactions up to the Bank's permitted risk limits, in particular those which exceed the authority of the senior management.

2. Strategy, Merger, Information & Transformation - The committee oversees matters pertaining to Strategy, Information Technology (IT), Transformation and Mergers. Review major projects handled by Enterprise Project Management Office. Review IT Strategy and major decisions relating to IT. The committee is to review and set the direction on the Bank's potential merger/s on behalf of the Board of Directors of the Bank in compliance with CBO, CMA and MOCI and other regulators guidelines and regulations. To conduct and finalize negotiations in relation to the potential merger on behalf of the Board of Directors of the Bank and also to oversee the steps of the merger to its final potential conclusion.

3. Capital, Funding & Bank Proprietary Book Investments - The Committee is tasked with reviewing and setting the direction on the capital and funding requirements of the Bank to ensure compliance with the CBO and Basel guidelines. It is also responsible for reviewing and setting the direction of the non-capital long-term funding requirements of the Bank, which are typically issued and listed on international or local markets, in addition to overseeing capital requirements. The Committee also oversees the management practices on investment matters. It monitors the Bank's investments and ensures that the Bank complies with its policies and regulatory requirements

The Members of the Board Executive (BEC) Committee are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Eng. Abdul Hafidh Salim Rajab Al Ojaili	Chairman of the Board Executive Committee	5
2	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	2
3	Mr. Faisal Mohammed Moosa Al Yousef	Member	4
4	Sheikh Khalid Said Salim Al Wahaibi	Member	5
5	Sheikh Tariq Salim Mustahil Al Mashani	Member	5
6	Mr. Ahmed Sultan Al Yaqoubi *	Member	5

*Mr. Ahmed Sultan Al Yaqoubi Joined the committee on 22 March 2022.

The BEC held 5 meetings in 2022.

4 - Board Audit Committee (BAC)

The Board Audit Committee (BAC) was formed by the Board of Directors with the following main objectives and responsibilities:

- To focus the attention of the Board and top management of the Bank on the importance of strong internal controls over financial reporting and sound risk management and governance practices.
- To review the adequacy and effectiveness of internal controls in the Bank and to recommend appropriate steps to improve them where required.
- To review the effectiveness of the system for monitoring the Bank's compliance with legal and regulatory provisions, Bank's Articles of Association, Charters, By-laws and internal policies and procedures established by the Board of Directors.
- To review the effectiveness of the internal audit function and approve the risk based internal audit plan as well as the availability of adequate resources and informational access.
- To recommend to the Board of Directors the appointment of the external auditors, their termination and remuneration and determine and review their terms of engagement.
- To meet the External Auditors and hear their views before forwarding the annual financial statements to the Board for approval.
- To report and bring to the attention of the Board any matters of concern with regard to the foregoing and any material accounting or auditing concerns identified as a result of the external or internal audits, or examination by supervisory authorities.

The Members of the Board Audit Committee (BAC) are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Mr. Hamdan Abdul Hafidh Al Farsi	Chairman of the Audit Committee	12
2	Mr. Ahmed Said Mohammed Al Mahrezi	Member	11
3	Mr. Zakariya Mubarak Al Zadjali *	Member	2
4	Sheikh Khalid Said Salim Al Wahaibi	Member	11

* Mr. Zakariya Mubarak Al Zadjali was a member in Audit committee from 1/1/2022 to 22/3/2022

The (BAC) held 12 meetings in 2022.

5 - Board Risk Committee (BRC):

The Board Risk Committee (BRC) was formed by the Board of Directors to focus on issues relating to Risk Management policies and procedures on a Bank-wide basis by arriving at a judicious policy decision collectively.

Roles and Responsibilities:

- To understand the risks undertaken by the Bank and ensure that they are appropriately managed.
- To develop risk policies, limits and procedures after assessment of the Bank's risk bearing capacity.
- To identify, monitor and measure the overall risk profile of the Bank.
- To verify models used for pricing complex products and transfer pricing.
- To review the risk models as development takes place in the markets and also identify new risks.
- To ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of Bank's operations.
- To build stress scenarios and measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and those predicted by the risk measures.
- To monitor compliance with various risk parameters by business lines.
- To hold the line management accountable for the risks under their control.
- Apprise the Board of Directors on significant issues affecting Risk Management in a timely manner.
- To oversee and ensure the implementation of CBO's guidelines on risk management systems in Banks.

The members of the Board Risk Committee (BRC): are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Mr. Tariq Abdul Hafidh Salim Al Aujaili	Chairman of the Board Risk Management Committee	6
2	Mr. Ahmed Said Mohammed Al Mahrezi	Member	6
3	Mr. Mohammed Yousuf Alawi Al-Ibrahim	Member	4
4	Sheikh Tariq Salim Mustahil Al Mashani	Member	5

The (BRC) held 6 meetings in 2022.

6 - Board Nomination and Remuneration Committee (BNRC):

The Board Nomination and Remuneration Committee (BNRC) is formed by the Board to ensure that the overall human resources developments at Board of Directors and executive management levels are as per the strategic direction of the Bank.

At a strategic level, the Committee is responsible for reviewing and monitoring the following:

- Nominate qualified persons to assume senior executive management positions for the Board of Directors approval.
- Provide succession and development plans for the executive management.
- Develop succession policy/plan for the Board of Directors, at least for the Chairman.
- Prepare detailed job descriptions for the Chairman and Directors.
- Nominate qualified persons to act as interim Directors on the Board in the event of any seat becomes vacant.
- Prepare and review compensation policy of executive management.
- Endorse compensation package (salary, increment, promotion, & bonus) of executive management for Board of Directors approval.

The members of the Board Nomination and Remuneration (BNRC) Committee are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Mr. Ahmed Said Mohammed Al Mahrezi	Chairman of the Board Nomination and Remuneration Committee	8
2	Mr. Mohammed Yousuf Alawi Al-Ibrahim	Member	7
3	Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili	Member	8
4	Sheikh Tariq Salim Mustahil Al Mashani	Member	4
5	Mr. Ahmed Sultan Al Yaqoubi	Member	1

* Mr. Ahmed Sultan Al Yaqoubi Joined the committee on 27/10/2022.

The (BNRC) held 8 meetings in 2022.

7 - Directors' Remuneration

As all members of the Board are non-executive directors, no fixed salary or performance-linked incentives are applicable. The non-executive directors are paid an annual remuneration and sitting fees for attending the Board / Committee meetings. Directors' proposed remuneration and sitting fees paid during 2022 are as follows:

	Proposed Remuneration OMR	Sitting Fees Paid OMR	Total OMR
Chairman of the Board	35,500	10,000	45,500
Board Members	264,500	72,800	337,300
Total	**300,000**	**82,800**	**382,800**

8 - Compensation Policy

In line with the CBO guidelines on remuneration disclosures, the Bank has described the relevant qualitative and quantitative disclosures in this Corporate Governance Report.

8 (a) Qualitative Disclosures:

The Compensation Policy supports the Bank's long-term business objectives. The current compensation practices are in line with the guiding principles of the CBO guidelines spanning across Risk Management and Risk Tolerance, supporting the business strategy, objectives, values and long term interests of the firm, avoiding conflicts of interest, governance, managing the control functions' pay, remuneration and capital management and profit-based measurement and risk adjustment. The Policy is reviewed at the periodic intervals. The Board of Directors of the Bank has a Board Nomination & Remuneration Committee (BNRC) which consists of a minimum of three Board Members, , with one Member representing the Risk Committee of the Board.The Committee's mandate is to frame compensation policy, systems and processes for implementation and or review.

The Total Rewards Strategy of the bank supports the growth of the bank in line with the long-term vision and objectives that take into account the longer term health of the institution and financial stability, while at the same time accomplishing the following goals related to our key talent:

- Attract and retain employees
- Motivate and reward performance
- Align rewards with the organizational culture
- Drive synergy between organizational and employee performance
- Encourage desired behaviours and recognize the required results
- Focus employees on achieving the organizational goals and objectives
- Ensure Pay mix is appropriate to generate desired productivity, behaviour and in line with CBO guidelines
- Transparent and lucid compensation systems to ensure employee adoption

8 (b) Material Risk Takers

Material Risk-takers are identified to include AGM & above and all staff with bonuses of more than OMR 35,000, within the agreed framework and in line with CBO guidelines. The Bonuses of the MRT's are deferred over the 4 years period wherein the first year, 55% of the bonus' paid as cash and the balance is paid equally over the subsequent 3 years, subject to certain conditions relating to malus and clawback. The Compensation Policy also specifies the treatment of payments of unvested bonus payment considering various scenarios.

8 (c) Risk Adjustment

Through a series of measures, the bank ensures that effective risk management processes are embedded into compensation systems addressing both ex-ante and ex-post adjustments.

The risk adjusted bonus funding mechanism shall comprise of Compensation Governance, Determination of Bonus Methodology, Employees Group, and Deferral Schedule. However, this mechanism will not be applied to accrue for the bonus pool for the control functions staff.

The existing methodology to determine the risk adjusted bonus funding mechanism is summarized below:

a. a.The bank assesses its liquidity and capital requirements prior to approving the bonus pool

b. The net profit is adjusted to factor in the various risk exposures faced by the bank

c. The Bank bonus distribution to its staff is based on the performance against pre-determined measures.

d. This consists of both short term and long-term incentives as appropriate to the employee's role.

8 (d) Control Functions

The Bonus for all staff employed in the Control Functions will be derived through a specific plan designed to adhere to the CBO guidelines.

8 (e) Malus and Clawback

The policy of Malus & Claw Back is in place, in order to ensure that the bonus is paid based on accurate financial and operating data. If the Bank determines to seek recovery for the bonus payment due to causes that are mentioned in the Policy, the Bank shall have the right to demand from the staff to reimburse such amount to the Bank.

8 (f) Quantitative Disclosures

The Board Nomination and Remuneration Committee (BNRC) has held 8 meetings in 2022. As per the Policy, the bonus pool is a variable factor and depends on overall performance of the Bank; the Pool is funded by taking a percentage of the Net Profit.

The 6 key management members and their salaries and bonuses for 2022 was OMR 1,694 million. The amount disclosed is the amount paid for the reporting period. Certain components of the key management bonuses are paid on the deferral basis as per the guidelines issued by the Central Bank of Oman.

The period of services contract for expatriate executives is two years while the notice period for the top executives is three months.

9 - Other Disclosures

For the year 2022, an amount of OMR 165,013 was accrued / paid to the External Auditors of the Bank for audit and assurance related work.

10 - Related Party Transactions, Dealings and Policy

The Bank adopts a comprehensive policy and by-laws regulating related party dealings placing procedures and guidelines governing and regulating such transactions and dealings with the directors who have strong and significant interest in the Bank's dealings.

Details of such dealings and transactions, if any, are incorporated in the financial statements given in the annual report as public disclosures.

11 - Corporate Social Responsibilities

The Bank extends its efforts in making difference from ensuring remarkanle customers' experience and value addition to the Omani banking sector to playing part in sharing the society reposnsipilities vide ensuring sufficnet budget for Corporate Social Responsibilities (CSR). During the year ended on 31st Dec, 2022 the Bank supported the Omani society for the hearing impaired with an amount of R.O. 10,000.

12 - Compliance with Regulatory and Control Requirements

The Bank adhered to and complied with all relevant regulatory requirements in the last three years. No penalties were imposed in 2019. The Central Bank of Oman imposed a penalty of OMR 14,000 in 2020 and OMR 14,000 in 2021. The Examination Report of the Central Bank of Oman for 2022 has not been issued at the date of preparing this report.

Also, the Bank complied with all provisions of the Code of Corporate Governance issued by the Capital Market Authority.

13 - Communication with Shareholders and Investors

All financial and non-financial information are disseminated in a timely manner. The management provides regular updates to the market on the Bank's performance and new developments, besides detailed disclosures in accordance with regulatory requirements and international standards. The Management Discussion and Analysis Report forms part of the Annual Report.

As part of enhancing Bank Dhofar's investors' relations image, the Bank has taken the following steps:

1. The Bank has created a separate section under its website "Investors' Relations" where all the relevant information, links, and documents of investors' interest and relevance are gathered under this section.

2. The Bank has created an email ID: investorsrelations@bankdhofar.com, which is available on Bank Dhofar's website under "Investors' Relations" section for further communication ensuring attending investors' and other external stakeholders' queries on timely basis. The bank receives various queries from external financial institutions and investors from time to time.

The Bank publishes its unaudited quarterly and audited annual financial statements and also hosts these and other relevant information on its website (www.bankdhofar.com) and Muscat Stock Exchange (MSX) website (www.msx..om). The quarterly and annual results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders of the Bank. Bank's all official news releases are displayed on the Bank's website.

14 - Market Price Data

a. Share Price Movements

The high/low share price information of the Bank during the financial year ended 31 December 2022, compared with Muscat Stock Exchange Financial Sector Index is as follows:

2022	BankDhofar Share Price (OMR)			MSE financial sector Index
Month	High	Low	Closing	Closing
January	0.137	0.119	0.119	6,553.27
February	0.120	0.110	0.111	6,441.76
March	0.121	0.112	0.115	6,763.36
April	0.120	0.113	0.116	6,600.62
May	0.118	0.114	0.114	6,557.93
June	0.118	0.113	0.117	6,614.99
July	0.130	0.114	0.130	7,275.03
August	0.141	0.131	0.135	7,351.08
September	0.148	0.127	0.142	7,216.93
October	0.150	0.139	0.145	6,989.52
November	0.157	0.141	0.155	7,489.97
December	0.179	0.155	0.175	7,903.37

b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2022:

Sr.No.	Shareholder	Percentage of Ownership
1	Dhofar International Development & Investment Holding Company (SAOG)	24.38%
2	H.E. Abdul Hafidh Salim Rajab Al Ojaili & his companies	23.83%
3	Civil Service Pension Fund	10.61%
4	H.E. Yousuf bin Alawi bin Abdullah & his companies	9.80%
5	Public Authority of Social Insurance	8.99%
6	Sheikh Mustahail Ahmed Al-Ma'ashani & his companies	7.45%
7	Ministry of Defense Pension Fund	5.19 %
8	Others	9.75%
	Total	**100.00%**

15 - Profile of the Statutory Auditors

PwC is a network of firms with more than 327,947 people operating from 152 countries in 688 cities across the globe, making us the largest professional services provider in the world. We are committed to delivering quality services in Assurance, Tax and Advisory (which includes our Consulting, Deals and Strategy& practices). In doing so we help to build trust in society, enable our clients to make the most of opportunities and solve important business problems.

PwC has operated in the Middle East region for more than 40 years. Collectively, our Middle East network employs in the region of almost 8,000 people including over 367 partners and 549 directors working from 24 offices (in 23 locations) across 12 countries: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates and 40% of our Middle East workforce is female. We are one of the fastest growing PwC member firms worldwide and the largest professional services firm in the Middle East. (www.pwc.com/me).

PwC is strongly committed to Oman where it is recognised as one of the leading providers of quality business advisory services. We have had a local practice in Oman since 1971 and now have 8 partners, 1 of whom is Omani and 7 directors, 1 of whom is Omani and approximately 166 other members of staff operating from our office in the Sultanate.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

16 - Other Matters

The last Annual General Meeting was held on 22 March 2022. The meeting was conducted as per statutory requirements and attended by the Chairman, Eng. Abdul Hafidh Salim Rajab Al Ojaili and the following members of the Board of Directors: Mr. Ahmed Said Mohammed Al Mahrezi, Mr. Tariq Abdul Hafidh Salim Al Aujaili, Dr. Hamdan Abdul Hafidh Al Farsi, Mr. Faisal Mohammed Moosa Al Yousef & Sheikh Tariq Mustahil Al Mashani.

17 - Subordinated Loan (Outstanding and movements during 2022)

1. In November 2022, the Bank repaid the RO 35 million unsecured subordinated loan which was availed in May 2017.
2. In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenor of 66 months. These facilities carry a fixed rate of interest, payable half yearly and the principal being repaid on maturity.
3. Details regarding movement in subordinated loan reserve are set out in note 18(b) in Notes to the financial statements.

18 - Perpetual Tier 1 Capital Securities

Tier 1 USD Securities

On 27 May 2015, the Bank had issued Perpetual Tier 1 USD Capital Securities (the "Tier 1 USD Securities"), amounting to USD 300,000,000. This Tier 1 USD Securities were listed in Irish Stock Exchange (now traded as Euronext Dublin).

The Tier 1 USD Securities constituted direct, unconditional, subordinated and unsecured obligations of the Bank and were classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 USD Securities did not have a fixed or final maturity date. They were redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority. However, due to the prevailing Covid-19 global pandemic and market conditions at that time, the Bank was not able to exercise the option at the First Call Date. On 27 November 2022, the Bank has exercised the option of the call date and repaid the AT1 Securities amounting to USD 300,000,000.

The Tier 1 USD Securities bore interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. As specified in the terms and conditions of Tier 1 USD Securities, the interest for the five year reset period is at fixed annual rate of 5.519% from the First Call Date. Interest will be payable semi-annually in arrears and treated as deduction from equity.

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 2018, 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 7.50%. 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-3 and Central Bank of Oman Regulations (BM-1114).

19 - Acknowledgment

The Board of Directors confirms the following:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.
- It has reviewed the efficiency and adequacy of internal control systems of the Bank and that it complies with rules and regulations and internal policies.
- There are no material matters that affect the continuation of the Bank and its ability to continue its operations during the next financial year.

On behalf of Bank Dhofar, the Board Directors extends their sincere gratitude to the Bank's stakeholders for their trust and belief as well as to both the Central Bank of Oman (CBO) and Capital Market Authority (CMA) for their collaborative guidance and supportive measures that enabled the Bank's growth based on solid fundamentals and strengthened the financial market. Bank Dhofar continues and peruses its success with great determinations and ambitions to stand remarkably.

Eng. Abdul Hafidh Salim Rajab Al Ojaili
Chairman

PROFILE OF THE **EXECUTIVES**

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

Abdul Hakeem Al Ojaili is the Chief Executive Officer of BankDhofar. He has over 33 years of experience in the banking industry.

Abdul Hakeem holds a Master's Degree in Banking Management from the University of Exeter in the UK and a Bachelor's Degree in Business Administration, Marketing & Management from New England College in the USA. He is also an alumnus of both Harvard and London Business Schools' Executive Education Programs, and he was cross posted to work on key assignments with international banks.

Karumathil Gopakumar
Deputy Chief Executive Officer

Karumathil Gopakumar joined BankDhofar as Deputy Chief Executive Officer in November 2021. He is a veteran finance professional with more than 30 years of experience in various leadership roles in Wholesale Banking, Retail Banking, Treasury & FI, Investment Banking, Asset Management, Private Banking, Financial Control and Operations with renowned financial institutions.

Prior to joining BankDhofar, Gopakumar held several leadership positions at banks in Oman. He is a Chartered Accountant, Cost Accountant and Company Secretary from India, a member of the Chartered Institute of Management Accountants, London, Member of the ACI - The Financial Markets Association, London and a Member of the Corporate Treasurers, London. He also holds an MBA from IMD Lausanne, Switzerland.

Ahmed Said Salim Al Ibrahim
Chief Corporate Services Officer

Ahmed Al Ibrahim has 28 years of experience in the banking and finance industry. He currently serves as the Chief Corporate Services Officer at BankDhofar.

Ahmed holds an MBA from the University of Hull in the UK and a Bachelor's Degree in Mass Communication from Sultan Qaboos University. He also attended the Executive Leadership Program at the London Business School and several other programs in Management, Business and Banking.

Faisal Hamed Sulaiman Al Wahaibi
Chief Government Banking &
Investment Banking Officer

Faisal Al Wahaibi is the Chief Government Banking & Investment Banking Officer at BankDhofar, and he brings in more than 29 years of accumulated experience in Strategic Planning, Relationship Management, Customer Experience, Budgeting, Planning, Funding, Regulatory Affairs, Outsourcing and Restructuring, Cost Control and Reduction, Sales, Marketing, Distribution, Staff Development, telecommunications, Operations & Retail.

Faisal holds a Bachelor's Degree in Marketing from the University of Missouri, USA. He is an alumnus of Harvard Business School, having completed the Advanced Management Program.

Kamal Uddin Hassan Al Maraza
Chief Maisarah Islamic Banking Officer

Kamal Al Marazza is an experienced banker with over 22 years of experience in Corporate Banking, Relationship Management, Sales and Marketing, Risk Management and Business Strategy. Prior to his appointment as Chief Maisarah Islamic Banking Officer, he served in various banks in Oman.

Kamal holds a Bachelor's degree in Marketing from Saint Louis University in USA, and he attended Harvard Advanced Management Program, in addition to several specialized banking programs locally and internationally.

Dr. Tariq Saleh Mohammed Taha
Chief Information Officer

Tariq Taha is the Chief Information Officer at BankDhofar and has over 22 years of professional experience in banking, telecom, oil & gas industries.

Prior to his current post, Tariq served as the Chief Retail Banking Officer and Digital Banking & Information Officer for several years.

Tariq holds a PhD in Management (Research) from Abdul Malik Sa'adi University in Morocco, Master of Management in Information Technology from University of Ballarat – Melbourne in Australia, and Higher National Diploma in Computer Science from the College of Banking & Financial Studies in Oman. He also attended various specialized banking programs both locally and internationally.

Vikesh Mirani
Chief Financial Officer

Mallikarjuna Korisepati
Chief Wholesale Banking Officer

Vikesh Mirani joined BankDhofar as the Chief Financial Officer in September 2021. He is responsible for all financial affairs and is in charge of setting the financial strategy and planning for the bank.

Prior to his appointment in BankDhofar, Vikesh was the Chief Financial Officer with Al Masraf in UAE and MD & Group Chief Financial Officer with Techcom Bank, an Associate of HSBC and one of the largest private sector banks in Vietnam. In his career spanning over twenty-five years, he has held various senior management roles in multinationals including HSBC, Standard Chartered, ABN AMRO and Emirates NBD.

Vikesh is an Associate Chartered Accountant (ACA) from The Institute of Chartered Accountants in England & Wales (ICAEW) and The Institute of Chartered Accountants of India (ICAI) and holds a Bachelor's Degree in Commerce with Honors in Accounting.

Mr. Mallikarjuna joined the Bank as Chief Wholesale Banking Officer. He is a Senior Management Executive with 26 years of experience in Treasury, Capital Markets, Investments, Corporate & SME Banking, Retail Enterprises, Syndications & Global Financial Institutions with renowned global Banks. He has completed the Advanced Management Program from Harvard Business School. Mallikarjuna holds an MBA degree from SP Jain Institute, Mumbai, India, and a bachelor's degree in technology from IIT, Kharagpur, India.

Amjad Iqbal Hassan Al Lawati
Chief Retail Banking Officer

Amjad joined BankDhofar as the Chief Retail Banking Officer in August 2022. He is a Senior Management Executive with 26 years of experience in retail banking segments within renowned banks in the GCC.

He holds a bachelor's degree in Business Information Systems from Lincolnshire & Humberside University – UK.

Leen Kumar Sugumaran
Chief Risk Officer

Leen Kumar is the Chief Risk Officer with over 28 years of professional experience in operations, strategic management, risk management, corporate and retail banking.

Prior to his current post, Leen held leadership and management positions in local and international banks.

Leen holds a Master's Degree in Business Management from Asian Institute of Management, Manila, and a Master's degree in Commerce from India. He is a certified Financial Risk Manager (FRM), Certified Management Accountant (CMA) and a Certified Financial Manager (CFM).

Dr. Khalid Salim Ali Al Hamadani
Chief Human Resource Officer

Dr. Khalid Al Hamadani joined BankDhofar in 2016 with over 26 years of professional human capital experience in both public and private sectors in Oman. He holds a PhD. in Human Resources Management from North Hampton Business School and a Master's Degree in Human Resources Management from Sheffield Business School in the UK, as well as a B.A. in Education from Sultan Qaboos University.

Ali Mohammed Al Alawi
AGM & Head of Compliance

Ali Al Alawi has been the Head of Compliance since 2019 and has experience of more than 24 years in diverse disciplines such as branch banking, corporate banking, treasury front office and risk management.

Ali holds a Masters of Science in Strategic Finance Management from the University of Derby (UK) and a Bachelor of Business Administration in Finance and Banking Management from University of North Texas (USA). He also holds an International Diploma in Governance, Risk and Compliance from the University of Manchester (UK).

MANAGEMENT **DISCUSSION & ANALYSIS REPORT**
FOR THE YEAR ENDED
31st DECEMBER 2022

Economic Scenario and Outlook

2022 was a mixed year following historic volatility of 2020 and 2021 - which saw the severe global downturn, followed by the strongest rebound. 2022 saw several milestone events including supply and demand issues spilling into labor markets and a third major wave of COVID-19 to Russia's invasion of Ukraine. Turning towards 2023, impact of Central Banks efforts to moderate inflation by tightening monetary policy is expected to unfold its impact on global economy. While globally there is increased risks of recession from elevated borrowing costs, the region is relatively better placed on the back of relatively stable oil prices, regional Governments efforts to diversify the economies, and prudent fiscal management.

Government Banking and Investment Banking Division

Government Banking and Investment Banking Division is dedicated to addressing the requirements of a broader range of customers. BankDhofar has formed the Department to capitalize on the relationships with strategic partners.

Since its inception, BankDhofar has maintained a solid position in the market by participating in various national projects and contributing to enhancing Oman's economy. Government Banking and Investment Banking Division capitalizes on such relations to increase BankDhofar's brand value, expand the customer base, access additional resources, and stimulate revenue growth.

Government Banking and Investment Banking Division comprises the following Departments:

- Government Banking
- Investment Banking
- Proprietary Investments
- Private Banking
- Asset Management

Government Banking Department:

Government Banking Department offers a wide range of banking products and services to government and quasi-government clients through dedicated resources and a high-level of technology to provide quick customer service and meet the unique requirements of Government customers with varied financial service needs.

Investment Banking Department:

The Investment Banking department offers specialized services of strategic advisory to various industry sectors such as Oil & Gas, Telecom, Financial Institutions, Steel, Power & Utilities, and SMEs by providing tailor-made solutions & products. The products on offer include corporate and asset-level organic and inorganic growth/exit strategies, mergers, acquisitions, management buy-outs/buy-ins, capital raising, capital restructuring, private placements, start-ups, and joint ventures.

Proprietary Investments Department

Proprietary Investment Department manages Bank's multi-asset class investment portfolio in accordance with its investment mandate and in compliance with regulatory guidelines. During the year, Bank maintained its successful performance track record of investments despite a challenging macro-economic environment.

Asset Management Department

The Asset Management Department intends to provide asset management services to address the needs of individuals and investors. The department will be equipped with an experienced team to provide investment solutions and advise customers on the best products/practices to achieve their investment goals.

Private Banking Department

Private Banking Department aims to be at the forefront of devising and offering unique and innovative investment products from developed and emerging markets to provide its clientele with a diversified pool of well-performing investment solutions.

Wholesale Banking

Large Corporate Banking

The Large Corporate Banking department of the Bank caters to the banking requirement of corporates with annual turnover of more than OMR 12 M and major corporate groups in Oman. With its team of dedicated and experienced resources, the unit is always looking to enhance its service standards with innovation and providing value-added services to its clientele. The department aims to provide superior service with the least Turnaround time (TAT). Corporate Banking unit operates from two locations in Oman i.e. Muscat and Salalah. Through the Corporate Centre, BankDhofar provides automated multipurpose kiosks wherein the customers can conduct their banking business at their convenient time and our multipurpose kiosks provide 24/7 service.

Large Corporate Banking Department plays a vital role in contributing to the Bank's Credit growth by offering both funded and non-fund based product to meet the working capital and capex requirements of the corporates. Banks focus on various sectors is In line with the country's economic policy and with emphasis on specific diversified economic sectors to channelize the resources to high priority, growth sectors.

In line with Central Bank of Oman, guidelines, Bank has provided appropriate financial relief measures to all eligible borrowers affected by COVID 19 pandemic to support the business and economic recovery.

With continuous investment in digital technologies bank is well placed to offer its customer digital banking Solutions for managing both receivables and payments by offering various products like POS, RCCD, B2B, Online Banking and Corporate Credit Card etc.

Corporate Banking Department is extending all Trade Finance related Services through a team of efficient and experienced professionals who are adept in handling, processing all trade finance transactions/needs of customers with the least turnaround time. Bank's Trade Finance products and services have been evolving continuously to meet the requirements of customers (both local and international).

As one of the biggest private banks in the Sultanate of Oman, BankDhofar provides customized services to all segments of customers based on their business requirements.

From a technology perspective, the Bank upgraded Core Banking System, which gives the flexibility to further enhance our services with process automation. BankDhofar has an extensive international network of correspondent banking arrangements making it possible to execute transactions and provide end-to-end monitoring for its customers. With a global reach and well-trained team offers quality service with quick turnaround time by leveraging in-depth understanding of trade and banking practices with correspondent institutions and ensuring a smooth handling of cross-border transactions.

The Large Corporate Banking Department is driving its business strategy in line with the overall Bank's Vision to achieve the Higher Goals.

Treasury

BankDhofar's treasury division provides a comprehensive suite of treasury and investment products to the retail, corporate, commercial and government institutions. They range from plain remittances to structured products. The markets range from money markets to interest rates, FX and NDF. We are Oman's leading market maker in the local currency and swaps.

The broad functions of Treasury can be divided into four functions which are:

a. Funding: Managing banks funds, ensuring availability of funds to corporates, project finance, retail, FI and the short term surplus (Maximum up to one year) through placements.

b. Trading: To manage banks own book in various financial instruments not being derivatives. However, derivatives of first order buying call or put options to hedge the trading positions.

c. Client Needs: Advising Clients to hedge their commodities, forex, interest rate risk through plain vanilla derivative solutions within the mandated policy from time to time.

d. Investment: Investing in T bills in RO, or other Currencies, Investing in Government development Bonds, Raising or investing in CD of OMR or Other currencies, Facilitation of Committed Line, Repos.

Treasury has the following desks providing basket of various products and financial instruments. These desks are:

- **Money Markets**
    - Interbank Borrowings
    - Interbank Placements.
    - Repo.
    - GDB Investments.
    - T-bills.
    - CDs.
- **Interbank and Central Banks.**
    - Nostro Funding for Multiple currencies.
    - USD/OMR Forwards and Swaps.
    - Balance sheet hedging.
- **Corporate Sales desk:**
    - FX: Spot, Forward, Swap and Options
    - Commodities: Spot, Forward, Swap, and Derivatives covering different commodities classes such as Base Metals, Precious Metals, Energy and Agriculture.
    - Interest Rate: Interest Rate Swap (IRS) and Forward Rate Agreement (FRA).
    - Structured Products.

BankDhofar's Treasury is the leading and the market maker for USD/OMR forward and swaps. Treasury staff are professional dealers with long experience in all of the financial market instruments and the majority of these dealer are internationally certified with Treasury professional certificates. BankDhofar's treasury is having the maximum number of internationally certified dealer among all treasuries in Oman. With this experience and qualification Treasury staff are offering services 24/7 and covering different geographical areas from Tokyo to New York.

Mid Corporate Banking and SME

There are deliciated teams of relationship managers cater to customer requirements in Mid-Sector Corporates. The operational teams attend to various customer segments and provide tailor-made financing solutions based on their business needs. Bank has ensured the availability of adequate staff during the pandemic to serve corporate and other customers of the Bank and met their business requirements. Mid Corporate Banking Department plays a vital role in diversifying the Bank's Credit growth. The Bank's Credit growth is in line with the country's economic policy and with emphasis on specific diversified economic sectors.

In continuation to Bank's policy of encouraging Small and Medium Enterprises (SME) sector, we are dedicated towards promoting sustainable development in Oman by encouraging the growth of SMEs. We have a well-established SME department equipped with skillsets and talents particularly suited to service the SME sector. The SME department is addressing the banking requirements of SMEs, with an aim to contribute to the advancement of the Oman's national economy through the continuous development of the SME sector, and find ways in which access to financial and innovative solutions can be provided. The Bank has deployed committed business relationship managers to provide appropriate financing solutions to SME clients. In a demonstration of its commitment to support SME sector, BankDhofar received an award from SMEs Development Authority for participating and sponsoring the "Finance and Investment Forum" in the Special Economic Zone at Duqm.

In line with Oman Vison 2040, the Bank participated in a forum "Exceptional Ideas for Exceptional Times" that was organized collaboratively by Entrepreneurship Society of Oman, ESO2 (Under Formation), Oman Banks Association (OBA), and Petroleum Development Oman (PDO). The Bank participated in several other initiatives to support and motivate SME Entrepreneurs and Self-employed.

Project Finance, Syndications

Project Finance, Syndications department originates and executes project & structured finance transactions for the Bank. The department has presence in project finance lending across all industrial and infrastructure sectors in the Sultanate and is aligned with Oman Vision 2040 to contribute to the economic growth and diversification of the country.

The department is well positioned to continue to seize opportunities thrown by the buoyant economy as it emerges from the pandemic. Some of the transactions executed last year include financing roll-out of digital infrastructure - telecom towers, broad band, mobile telephony, steel, electricity, petrochemicals, upstream oil & gas, tourism infrastructure etc.

Deep sectoral expertise combined with prudent lending practices will continue to ensure that the department will strike a judicious balance in maximizing net interest and fee incomes while maintaining credit quality. The department expects to continue with renewed vigour to serve existing and new clients by offering bespoke solutions across the banking value chain.

The growing economy will continue to open opportunities for financing and to meet these head on, the department will continue to forge relationships based on mutual trust and respect, with local and regional banks to co-underwrite, arrange financing at best terms for our clients.

Some key transactions executed during the year are financing of projects across sectors including:

- Steel
- Oil & gas sector (both upstream and downstream)
- Digital infrastructure including rollouts of broadband, telecom towers and mobile telecommunications network.

Corporate Liabilities

BankDhofar's Corporate Liabilities is relationship-driven department where it provides a one stop shop for customers from account opening (current, saving, non-resident, offshore and Escrow Account for Real Estate Development Projects/Integrated Tourism Communities) to providing all corporate products such as Business Debit Card, Corporate/ Business Credit Card, Corporate Internet Banking, Point of Sale "POS" including Soft POS, E-commerce/ Payment Gateway, Business2Business "B2B", Remote Cheques Capture & Deposit "RCCD" services, E-statement and SMS Alerts. Additionally, cross-selling within WSB with regards to Assets/Lending, Retail Banking and MIBS. Other products include non-funded products such as LCs and LGs. The department's top priority is ensuring the best customer experience for existing and potential customers.

Corporate Liabilities work closely with various departments within the bank to ensure that liabilities volumes and profitability targets are achieved and exceeded through successful client engagement.

Some of the 2022 achievements:

- Opening of first escrow account for real estate development project (Barka Property Development LLC);
- Growing the Corporate Liabilities team enabling the department to focus on aggressively targeting new customers of larger corporations;
- Actual achievement to be shared as on 31/12/2022 because till 21/12/2022 deposits are being booked or renewed.

The Department is aiming to contribute significantly to achieving liabilities target for the bank in 2023 and beyond.

Transaction Banking & Trade Finance

The Transaction banking division was formed in 2022 as part of BankDhofar's Wholesale Banking divisional strategy to provide an enriched banking experience to its corporate customers through a wide range of financial solutions that closely matches its customer's needs. The focus is primarily on providing clients an effective solution to manage their collections and payments efficiently, using advanced digital channels, backed by a robust MIS and reconciliation platform to optimize clients' working capital. The department is also looking to offer supply chain financing, including receivables and payables financing, structured trade finance offering including rental discounting and asset backed financing. Through its newly formed division, BankDhofar is well poised to offer world class Transaction Banking products to its clients.

The Trade Finance department has an excellent reputation within the Trade Finance industry, and we are constantly looking for ways to unlock opportunities across business and provide our value customers with customized solutions that help them plan their business.

As our value of service excellence is embedded in everything we do with our dedicated skilled professional and reliable teams who are focused on delivering superior service to its customers through handling, processing all trade finance transactions/needs of customers with the least turnaround time. Bank's Trade Finance products and services have been evolving continuously to meet the requirements of customers (both local and international).

Financial Institutions & Debt Capital Markets Department

Financial Institutions & Debt Capital Markets Department establishes and maintains all international Correspondent Banking relationships of the Bank. The department ensures that the Bank's corporate and retail clients have access to the world through the wide network of leading correspondent banks and Capital Markets. Capitalizing on the excellent relationship with leading regional and global banks, the department actively assists the bank's corporate customers with their global trade finance requirements.

The department is responsible for raising funding from international sources through syndicated/bilateral/club/repo loans. The department also assists in raising equity capital from overseas sources for the bank.

During the year, regardless of the challenging macro-economic conditions, the department was responsible for arranging loans and deposits from various regional and international banks/investors to meet the requirements of the customers.

The substantial credit lines available from financial institutions around the globe has helped the bank increase its ability to support the increasing business needs of the customers. The department will continue to look to identify treasury relationships and trade finance self-liquidating transactions within the Gulf Cooperation Council countries (GCC) and regional markets to build a sustainable long-term relationship that would benefit both the bank and its customers.

Achievements during the year, example:

- Acted as the MLA & Bookrunner for USD 4 billion Ministry of Finance, Oman term loan
- Raised USD 650 million debt from overseas through syndicated loans
- Successfully raised the largest ever OMR 115.5 million AT1 capital by any bank in Oman at the lowest ever pricing.

Retail Banking Division

In 2022, BankDhofar provided a special offering comprising loans, credit cards and insurance to the employees of targeted companies within the Sultanate and continued providing the best customer service ensuring quick turnaround time for loan applications.

BankDhofar launched travel insurance and continued to offer a diverse selection of insurance packages such as Personal Accident insurance and Motor insurance. The Bank functions as an insurance agency and provides these services to meet customers' needs.

The Bank continued to implement a comprehensive segmentation strategy for all its Retail Banking customers based on a combination of demographics and relationship maintained with the Bank. In doing so, the Bank has now embarked on a well-planned roadmap to match the right products, channels and services to the right customers to lead to greater customer satisfaction and one more step closer to the Bank's overall mission of providing the best customer experience. The segmentation strategy adopts the proprietary "Hierarchy of benefits" model where customer's benefits continue to evolve and keep pace with the customer's own lifecycle journey. The Bank is thus now well placed to provide the best range of products and services to all cross-sections of the society ranging from children, ladies, youth, expatriates, pensioners to high-net-worth customers.

Digital Banking

Digital Banking Department owns the digital strategy, services on different digital channels. Digital banking means to digitize all of the banking operations and substitute the Bank's physical presence with an everlasting online presence, eliminating a consumer's need to visit a branch. It enables a Bank's customers to access banking products and services via an electronic/online platform. Digital Banking Department grants BankDhofar customers the ability to access banking services easily via new, convenient, and innovative electronic channels which are available 24/7.

In 2022, Digital Banking have successfully enhanced BankDhofar Online Banking and Mobile Banking App by emphasizing the new and ultimate look & feel experience for customers. Not only will the new app be aesthetically pleasing and unique, but also will provide additional and detailed services that will create an easy and lively interface for the customers. Additionally, Alternative Delivery Channels managed to induce and implement the whatsApp service, which essentially

enables instant interaction with the customer.

Moreover, digital banking has successfully launched a new account opening App "Intilaqa" which alines with digital onboarding for banking services goals. Intilaqa application enables (new to bank customer) to open a saving account in minutes, and get the debit card by visiting nearest branch.

In a pioneering initiative to enhance our customer's experience; digital banking department lunched Multi-Function Kiosk which enables the customers to conduct varies instant self-service transactions at any time without the need to visit the branch.

Cards and Bancassurance

Cards and Bancassurance oversees product and sales business strategies for acquiring and issuance business while managing all transaction processing and back-end operations across payment products. It also derives continuous process improvements & facilitate better internal synergies, by building strong relationships across the business and corporate functions.

Following are the main achievements achieved during the year 2022:

1. Launch of two credit card campaigns:
    - 1st year Free Annual Fee
    - FIFA campaign (offer 2 FIFA packages to 2 winners based on a draw mechanism)
2. Launch of FIFA debit card
3. Launch of Easy Payment Plan on BankDhofar credit card
4. Launch of MyOffer Application for debit & credit cardholder
5. As per VISA confirmation – BankDhofar Loyalty program is one of the best loyalty programs in the Oman.

Al Riadah Priority Banking Services

BankDhofar's Al Riadah Priority Banking Services continued providing a unique range of banking products and services, ranging from personalized cheque book, exclusive Al Riadah card, including Visa Infinite Debit Card, Visa Signature Debit Card, Visa Infinite Credit Card, and MasterCard Platinum Credit Card. BankDhofar has tailor-made financing solutions to meet the needs of its priority banking customers with low insurance fees and simple and fast procedures. The Bank also provides deposit accounts at competitive interest rates and low insurance fees. In 2022, Al Riadah Priority Banking Services won Outstanding Priority Banking Services of the Year' award, at the Red-Carpet Signature Luxury 100 event. The award recognizes the exceptional services, products and financial solutions provided to the priority banking customers.

BankDhofar has dedicated Al Riadah counters in most BankDhofar branches and established specialized Al Riadah centers that provide a private and unique experience in Muscat (Muscat Grand Mall, Mall of Muscat, and Royal Opera House), Batinah - North (Sohar), and Dhofar (Salalah).

Strategy & Planning

Strategy

Success of an organization is determined by its ability to define its strategic direction and the alignment of organization efforts in that direction. The Strategy team plays an important role by performing the below

1. Strategy development – Formulation of bank-wide strategy by performing external and internal competitive analysis, conducting scenario planning, and organizing regular strategy meetings.
2. Organizational Alignment & Communication – To ensure all critical functions of the bank are aligned to overall strategy, detailed execution plans are developed by the unit by establishing clear linkages to the overall strategy of the bank. The unit oversees the process of developing execution scorecards and cascading them through the levels of the organization. It defines the synergies to be created through cross-business behavior at lower organization levels and ensures that individual business and support units strategies and scorecards are linked to each other and to the bank's strategy.
3. Monitor implementation of Strategic Initiatives – Given the discretionary nature of the strategic programs, the screening, selection, and management of the initiatives is managed separately from routine operations. While the responsibility for managing initiatives remains with the associated unit or function, Strategy team closely monitors and steers the execution progress.

In line with the above, strategy team formulated the bank-wide strategy, covering all business, support and control functions. Town hall was conducted in Q4 2022 in which the respective Chiefs communicated the strategy to middle and senior management of the bank.

Subsequent to this, detailed strategies are being developed and rolled-out to the respective businesses / functions in a sequential manner.

Marketing and Corporate Communications (M&CC)

Marketing and Corporate Communications Department looks into bringing the visibility of BankDhofar brand through various activities. Additionally, the department foresees the overall communication strategy, media relations and internal communication.

In order to to enhance its internal communication strategy, ensure to circulate effective messages to employees, and keep them updated with the initiatives, the department continued sharing the updates of various achievements and event coverages through Internal Announcement communication email.

Additionally, the department provides support to all business unites, and acts as the promotional engine for various offers, products and services campaigns. This included retail initiatives, such as loan campaigns, the launch of My Offers App, the launch of Easy Payment Plan, free credit card campaign, launch of Soft POS, launch of the revamped Mobile Banking App, among other campaigns.

In addition to the new initiatives, M&CC conducted awareness campaigns for BankDhofar and Maisarah customers. These campaigns aimed at raising awareness among customers about the state-of-the-art products, services, financial solutions, and innovative digital services provided by the Bank. The campaigns targeted customers through various touchpoints including social media and digital channels. Moreover, the Digital Communication team conducted several social media campaigns and competitions, to raise the level of engagement with the Bank customers and followers. The team also started working on the website revamp project, which will be officially launched in Q1 2023.

Community Engagement team, played a crucial role in supporting the business with various events and roadshows, including, BankDhofar Corporate customers' meet, branch openings, retail roadshows, Al Ziyara events…etc. The team also contributed in ensuring the best presence of the Bank in various strategic events, including, COMEX 2022, launch of Women's Club for Sports and Cultural Creativity, among other events.

M&CC department continued to maintain the strong presence of BankDhofar brand in Muscat International Airport and Salalah Airport through the jet bridges.

In 2022, BankDhofar marked 32 years of successful operations; M&CC highlighted the achievements and success of the Bank since 1990. These achievements were topped with prestigious international, regional and local awards. In 2022 only, the Bank bagged more than 12 awards including; Digital Transformation of the Year by the ABF Retail Banking Awards 2022, Islamic Banking Initiative of the Year by the ABF Retail Banking Awards 2022, Best Banking CEO Oman by World Economic Magazine, Best Islamic Digital Banking Services Oman (Maisarah Islamic Banking Services) by World Economic Magazine, Top Omani Brand Award in the Banking Category by Alam Al Iktisad magazine, Best Digital Transformation Bank – Sultanate of Oman 2022 by Global Economics Awards, Most Innovative Marketing and Branding Campaigns in Banking – Sultanate of Oman 2022 by Global Economics Awards, Best Corporate Bank - Sultanate of Oman 2022 by Finance Derivative Magazine, Best Investment Bank - Sultanate of Oman by Global Banking & Finance Awards, Straight-Through-Processing (STP) Award by CITI Bank, Best Corporate Bank - Sultanate of Oman by International Business Magazine Awards, Best Digital Transformation in the Banking Sector Award at the OER Business Summit, among others.

Corporate Social Responsibility Initiatives

CSR is an important pillar of BankDhofar's operations; environment elements, community development and social support have always been among the priorities and interests of the Bank. In 2022, BankDhofar supported the Omani Association for People with Hearing Impairment, to provide hearing aids for people with hearing impairment.

Financial Inclusion Initiatives

1- BankDhofar

- As part of Financial inclusion initiatives, Marketing and Corporate Communications has taken the responsibility to communicate to all individuals and businesses owners various retail products and services that meet their needs and are delivered in responsible and sustainable ways such as; awareness campaigns (segment-wise), sponsorship events, newspapers' press releases and advertisements, social media coverage ...etc.
- Social Media channels were essential in promoting products and services and different offerings in addition to utilizing corporate communications tools in highlighting BankDhofar's news and updates. The awareness campaigns don't only target existing customer base, but they cover general population to encourage public to join BankDhofar.
- BankDhofar has a branch network of 73 branches (designed appropriately to entertain disabled customers) across Oman to cover all demographics for customer banking ease.
- In order to assure higher consumer engagements and retention, BankDhofar has one of the best mobile banking application which is 24/7 accessible for real-time multiple transactions to migrate customer to mobile banking platform.
- Finally, the staff are trained regularly on multiple aspects of banking especially on selling skills and products available for each segment to ensure effective customer acquisition.

2- Maisarah Islamic Banking Initiatives

- In 2022, Maisarah continued to work on various initiatives, including public awareness campaigns, to spread knowledge on Islamic banking in general, and the products, services and financial solutions offered by Maisarah. This aimed at expanding the customer base within the Sultanate and to offer a platform for existing and potential customers to understand and benefit from Islamic banking solutions.
- As part of its ongoing support to various programs that aim at contributing to the growth and development of the Islamic finance industry in Oman, Maisarah participated and sponsored a number of events, including the 7th edition of IFN Oman Forum that highlighted a selection of fundamental topics like Oman Vision 2040 and the Islamic economy, green transition and sustainability-linked finance, Sukuk and investment funds, issues facing Islamic banks in Oman, disrupting and enabling Islamic fintech and crowdfunding platforms among other discussions.
- For further inclusion, Maisarah enhanced its digital banking channels and introduced several pioneering self-services that were available to users 24/7 to allow customers to complete transactions any time of the day through mobile banking and internet banking, and also utilize the larger network of BankDhofar ATMs/CDMs nationwide to for cash related services. These offerings were completely free of charge and were accessible to all Maisarah cardholders.
- Moreover, Maisarah's investment in the development of the skillset of staff members continued with focus on products and service awareness, Islamic banking principles, cross-selling of financial solutions, soft skills and customer service quality enhancement. Staff recognition scheme has been introduced to encourage branch staff to raise the service quality and to promote the culture of service excellence that will eventually lead to operational and business excellence.

Customer Experience

The delivery of a differentiated customer experience is what distinguishes BankDhofar from its competitors and what makes customers choose BankDhofar over our competitors. Customer experience (CX) is part of the Bank's strategy and planning division and is strategically positioned to enable the bank to continue to provide a differentiated customer experience.

Providing smarter, simpler and more personal banking experiences, nurturing relationships, listening to customers, and continuously adapting and improving customer experience, are the department's main strategic objectives. To achieve these strategic objectives, the bank has developed a customer experience strategic roadmap that is designed to create and deliver value to customers.

An extract from the customer experience strategy is the BankDhofar CX charter which is a set of guiding principles that guide the Bank's approach to customer service. The charter outlines the standards of service that BankDhofar customers can expect from the Bank. Each of these commitments represents the values and behaviors that all employees and the bank overall are expected to demonstrate when interacting with customers.

Corporate Services Division

Customer Feedback

Central to BankDhofar's constant commitment to provide an unparalleled customer experience, learning from the context in which it operates, and following best implemented practices, Customer Feedback Department has been formed, reporting directly to the Chief Operating Officer. The department encompasses different key units responsible for customer care, MIS and quality assurance.

The main function of the department is to address all customer complaints and find the right solutions that meet customers' aspirations and exceed their expectations in line with the Bank's strive to offer the best banking experience and to demonstrate the utmost governance in compliance with regulatory guidelines. Customer Feedback team collaborates with all departments and units within BankDhofar and Maisarah Islamic Banking Services to ensure customers' feedback is addressed properly as per the approved process and service level agreement.

Customers can easily approach the team via designated email address and phone numbers to share their feedback on services provided by the bank and for complaint escalation.

Customer Feedback Highlights in 2022:

- Updated the department's policy and instruction manual to ensure compliance with the Bank's governance and regulatory requirements.
- Set a comprehensive workflow process with concerned departments to reduce the turn-around-time for delivery of services.
- Established new mechanism to communicate with customers and to ensure higher levels of satisfaction and unique banking experience.
- Administered periodic training and educational sessions for service agents to accelerate resolution and completion of customer requests.
- Revamped the CRM system for further flexibility in handling customer complaints internally.
- Conducted ongoing root cause analysis towards continuous improvement of products and services in line with the market trends and specific customer requirements.

Legal Department

The Legal Department provides legal support and advice to all the Bank's departments and branches in order to safeguard the Bank's interests and prevent breaches. This is achieved by coordinating with the Bank's departments and branches to ensure correct implementation and interpretation of laws, regulations, circulars, and internal policies.

- The Legal Department is well established with an experienced team of lawyers and paralegals. Work is streamlined between the team members to increase turnaround time and the quality of the work.

- There has been an increase in the number of case settlements with customers and quicker responses to claims.
- The Legal Department conducts most of the review and drafting of contracts in-house to protect the Bank's interests and minimize risks while also improving quality and turnaround time.
- The Bank's policies and terms and conditions for both existing and new products, services, and standard forms are reviewed and updated in coordination with relevant departments.
- Various committees include the participation of the Legal Department.
- The Legal Department coordinates with the Central Bank of Oman, Capital Market Authority, Royal Oman Police, Public Prosecution, and other authorities as required.

Central Operation Division (COD)

Central Operations Department (COD) plays a major role in handling back-end operations which pertains to day-to-day transactions, enabling the branches and business units to focus on customer service and business development.

The volume of transactions processed at COD continues to grow in line with the Bank's overall business growth. Continuous efforts are being made to redesign and simplify the processes through lean and automation. The effective utilization of technological solutions and tailor-made processes implemented has enabled to increase the staff productivity.

In the year 2022, COD, which is a part of Operations, has successfully implemented the following process re-engineering/automation:

1. Process change by implementing full straight-through process of instant customer credit round the clock for ACH inward payments.
2. Process changes by implementing round-the-clock ACH outward payment processing for mobile banking, internet banking and Intelligence Business Process System (iBPS).
3. Onboarded to SWIFT GPI basic tracker (Global Payments Innovation) which is currently used to track customer payments in SWIFT application.
4. Government Revenue project with CBO
5. Implementation of The International Transaction Reporting System (ITRS).
6. Implementation of 24x7 payment processing (STP) for channels payments.
7. Automation of payroll payment processing through a secured channel.
8. Automation of ACH direct debit payment processing for outward and inward.

In addition, there are number of regulatory projects in the pipeline which is to be implemented in 2022 such as; Real Time Gross System of Gulf Cooperation Council (RTGS-GCC), Buna Cross-border payment system owned by Arab Monetary Fund, The International Transaction Reporting System (ITRS), Cards Transformation etc. along with other process enhancements which is related to payments and operation processing. Furthermore, the customer experience and services has been improving through implement and SAL for most of the critical services and transactions.

Business Continuity Management (BCM)

In terms of regulatory requirements, the Bank has in place Business Continuity and Disaster Recovery Planning always aiming at continued operations and customers' services. Bank undertakes reviews and methods to ensure its capability to meet the contingency arising out of any unforeseen disasters, technological failures, and various other threats. In this regard, the Bank has taken several measures to strengthen the BCM implementation in the Bank. The key initiatives include:

- An exclusive Business Continuity Management (BCM) Department has been set up under Enterprise Operations Corporate Services to deal with such as identification, assessment of risks, reporting of Business Continuity Plan (BCP) activities, conducting BCP testing, organizing BCM awareness programs, issuing alerts to staff during adverse weather conditions, maintaining updated BCP document, conducting quarterly BCM Committee meetings, addresses regulatory and compliance /audit issues.

- Risk Assessment exercise is undertaken on annual basis to review the BCP-related risks and mitigation requirements. Business Impact Analysis (BIA) exercise is conducted on a half-yearly basis to identify and assess BCP back-up requirements by interacting with nominated Business continuity coordinators.

- Bank has set up an exclusive BCP Steering Committee, entrusted with the responsibility of overseeing BCM implementation and maintaining a sound BCP for the Bank. The Committee is reporting to the Board Risk Committee (BRC). The Committee is meeting on a quarterly basis to review that BCP formulated across the Bank are implemented and tested.

- Bank has set up state-of-art an alternate BCP site for resuming critical business activities in emergent scenarios. In the same location, Bank has also set up a secondary Data Back-Up Center as part of the Bank Disaster Recovery (DR) Plan.

- Various BCP testing are adopted to ensure that the Business Continuity Plan is logical and practically feasible. As part of this testing plan, Bank undertakes two major types of testing

    o BCP Simulation testing under partial disruption scenario (what if the current work location is not available) and

    o IT DR Drill under full disruption scenario (Primary data Centre not accessible/ unavailable scenario). During the year under review, Bank has conducted annual BCP Simulation testing (from September to December 2021) and IT DR Drill Exercise & BCP Testing: DR sanity for the upgraded Core Banking platform was done by IT in December 2020.

- Besides this, Bank conducts several other types of BCP testing such as Database backup testing, Back-Up branches testing, etc. to test the adequacy of systems and business resumption procedures in various disruption scenarios. And the Tabletop testing exercise is conducted to cross verify the preparedness of Business continuity leaders.

- In terms of disaster recovery and safety measures, fire drills are carried out as per requirements.

- Staff are provided periodical training on BCM aspects. Different programs are customized to cater to the different target groups. Importantly, during the period under review, customized specialized BCM e-Training Programs have been organized to benefit all end-users to undergo mandatory BCM programs at their convenience either at the office or at home. Also, as part of promoting BCM Awareness, new innovations are introduced such as screensavers containing BCM Messages and BCM posters explaining the importance of BCM strategy and the steps that should be taken.

- The Bank is in the process of obtaining BCM – ISO 22301 Quality Certification. Currently, Gap analysis along with a Corrective Action plan is implemented to strengthen the BCM capabilities, prior to obtaining Certification.

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

Position	Contact information (+968 prefix)
Manager - BCM	24790466 Ext.: 754 GSM 93333318
Manager - BCM	24790466 Ext.:754 GSM 99757837

Policies and Procedures Department (PPD)

The Policies & Procedures Department (PPD) continues to facilitate and assist all departments under conventional Banking in maintaining sound policies, procedures, and framework in the Bank for effective and efficient risk management, internal control and corporate governance.

The main roles of the department can be summarized as below:

- Acts as the custodian and the focal point for the review of all policies and procedure documents.
- Assists the owners of the documents (Head of Functions) in the steps related to development, review, editing, and evaluation of new/existing policies, instructions, procedures, and processes.
- Cooperate with the owner, control functions (Risk Management Division, Compliance Division & Internal Audit Division) and the approving authority to complete review and approval of the documents.
- Ensure that updated documents are available to respective staff of units through Bawaba portal or, suitable mode of sharing and are also updated regularly on timely manner as an ongoing process.

During 2022, taking into consideration the feedback from users; PPD has worked on multiple initiatives to further simplify and streamline the document review process and enhance awareness of using Bawaba portal. This includes:

- Introducing document standards for Instructions Manuals which will help in reducing the number of documents currently prepared, reviewed, and maintained as the existing SOPs will be merged with Instructions Manuals.
- The requirement of submission of Implementation Plan is applied to more documents (Instructions Manuals & Product Schemes), aiming to facilitating better administration and improve principal controls of compliance.
- Synchronization between Bawaba portal and Tamayuz system to optimize and simplify the process of creation and deletion users leading to reduction of manual and paperwork & the time consumed in such activities.
- Several changes in Bawaba portal functionality to improve the User's experience (for e.g. enhancing the display of uploaded documents & other appendices, provide Export option to Reviewers & Approvers, and arranging the display of documents).
- Conducted additional training sessions to clarify the steps in the Bawaba portal, directly interact and address end-users' inquiries, and update them on the available features.

Information Technology Division

The Information Technology division supports the Bank's 'run-grow-transform' model of operations and owns the technology strategy, application systems, digital channel systems and infrastructure.

There have been a number of major technology initiatives in 2022 including embarking on a major network expansion through the addition of new branches, ATMs and CDMs.

The bank launched soft-POS, a unique service and a first in Oman that enables merchants to use mobile devices for point-of-sales transactions, besides upgrading and enhancing our POS services including unattended terminals. The Bank continued its technology leadership by pioneering digital transformation and customer experience programs resulting in national recognitions and awards in the areas of digital transformation such as the 'the best digital transformation in the banking sector' award.

Continuing our innovation journey, the Bank partnered with leading FinTechs to offer innovative financial solutions and services to customers in Oman.

The Business Process Management (BPM) platform was further enhanced with the implementation of the Business Rules Management Systems that enables the faster launch of new and innovative products to our retail customers.

To improve our services and provide the best experience to customers, Interactive Voice Notification (IVN) service was launched to proactively assist the customers virtually on needs like ATM PIN re-issuance, Mobile banking password reset, increase ATM withdrawal limit etc., and for capturing the customer feedback after the interaction at branches.

The award-winning Mobile Banking platform was further upgraded during the year to provide customers with enhanced user experience and services while adopting latest technology advancements to drive the continuing digital transformation initiatives.

The Bank also continued the ongoing investments in enhancing cybersecurity to ensure secure banking services to its customers, as well as regulatory technology to ensure compliance with local and international regulations.

The Bank has also initiated the data centre infrastructure enhancements to support future growth by partnering with the largest data centre colocation provider in Oman.

Credit Administration Department

Credit Administration Department (CAD) is the backbone of the lending-related operations of the Bank. The CAD department structure is formulated in a manner to accommodate post sanction operational process. The process pertains to limiting maintenance & disbursements, controlling facilities & collateral documentation, pricing management & lodgment of security documents etc. These activities are carried out under specific units allocated for Large Corporate Divisions, Business Banking and Retail Banking. Each unit comprises portfolios handled by portfolio holders and team leaders and managed by a specialized unit manager.

These units are entrusted with the tasks of carrying out the post-loan-sanction activities, such as identifying the borrower's legal structure and validating and reviewing the know-your-customer (KYC) documents, Identifying, valuing, and prudently classifying and recording the collateral, attaching Bank's security interest in the collateral module and perfect the lien position in the collateral and also managing legal agreements, preparation of Covenant Compliance Reports, Key Risk Indicator monitoring and other monitoring tools to manage the loan portfolio. In addition, an additional CAD support unit was formed in the Corporate Centre in Al Azaiba to provide swift services to the clients to reduce the turnaround time for many CAD-related transactions.

As a critical support procedure for the business segments of Retail and Corporate Banking, CAD has an established unit for public relations office (PRO) activities, which handles mortgages/joint registrations in the Ministry of Housing and Urban Planning, Ministry of Commerce, Industry, and Investment Promotion (MoCIIP) & Royal Oman Police (ROP) & the unit liaise with Muscat Security Market for the creation of pledge and release of shares. Additionally, the unit prepares Arabic letters to the external authorities for various requirements such as No Objection Certificates etc.

The Housing Loan Documentation Unit, allocated under the CAD Retail Segment, carries out custodian services for original housing loan documents and periodical revaluation for MIS reporting for Capital Adequacy computation.

CAD has a Branch Support Unit that manages the day-to-day activities centralized in the department. The system rights to handle these activities are solely entrusted with CAD. These activities include lien management, classification/de-classification end process, blocking/de-blocking end process, loan rescheduling, and pricing-related activities about the retail segment.

Another critical activity handled by CAD is the role of the focal point. It carries out the administration of the Oman Credit and Financial Information Centre (OCFIC) activities (Mala'a), previously known as the Banking Credit Statistics Bureau (BCSB) of the Central Bank of Oman. This unit coordinates reporting, exception management, access control, complaint management, and Management Information system (MIS)/Regulatory reporting pertaining to the Senior Management of the Bank. In addition, this BCSB unit directs the other related periodical regulatory reporting with the careful coordination of divisions such as Business, Finance and Compliance. Furthermore, CAD plays an active role in the CBOs establishing the new Oman Credit Bureau (OCB) initiative. The unit is also entrusted with formulating CAD policies and standard operating procedures (SOPs). In line with the Mala'a governance, Credit Administration is actively exploring possibilities to establish a prudent data quality management system in the Bank to assist the regulatory body in implementing an accurate data platform.

At present Credit Administration Department is moving from solely being a credit operational perspective towards a credit governance perspective. CAD has reviewed its functionality by reassessing all the security documents and system credentials aligned with the documents. The activity was a critical step towards the elimination of income leakage. As a part of the streamlining processes, high-impact areas such as LIBOR-related foreign currency loan review was carried out.

In the CAD revamp project, the department is developing an automated system for monitoring and carrying out the required operational procedure to fill the security documents' gaps and have a prudent MIS dashboard.

As a stepping stone for self-development, CAD originated an intradepartmental staff learning & development section where staff members can conduct their own periodical presentations and training programs to share the knowledge of their respective areas as well as their learnt skills. Initiating this CAD ensures there is a prudent transformation of knowledge as well as enhances the presentation skills of the staff member.

As a vision for the future and the rapidly changing business environment, CAD has embarked on re-engineering and developing the unit and the processes through Lean Six Sigma and 5s concepts using tools such as Robotic Process Automation (RPA) and Intelligent Business Process System (iBPS).

Compliance Division

Compliance activities in the Bank are guided by the Central Bank of Oman (CBO), Capital Market Authority (CMA) and other international capital market guidelines applicable to us from time to time, local and international applicable statutory guidelines/ obligations and international best practices.

The Board of Directors have established an effective Compliance function in the Bank and enforce its activities through a set of Board-approved policies and Management approved procedures. While, the first line, guided by Senior Management, ensures day to day operational management of compliance risk; at the same time, Compliance Division, second line of defense, is entrusted to independently look after the effective management of compliance risk in the Bank by conducting periodic compliance monitoring & testing (CMAT), conducting gap analysis of applicable regulatory & statutory guidelines, conducting enhanced due diligence of customers and transactions, transaction monitoring, transactions screening, screening of customers, etc. The Board approved Compliance Policy empowers Compliance Division to have direct access to the Board of Directors. However, for routine compliance risk-related issues, Compliance reports directly to the Board Risk Committee (BRC) for necessary guidance. Considering ever changing regulatory environment, requirements, global standards and industry best practices, the Bank has undertaken a fundamental restructuring of its Compliance function, aiming to be the best amongst its peers. In the last 3 years, the compliance operational landscape has shifted to maintain 'zero' level non-compliance risk in the Bank. In 2018-19, Bank engaged an external consultant of international repute to review the Compliance activities within the Bank. The final report was accepted by the Board. In 2020, Bank engaged another external compliance consultant of international repute for the compliance transformation program, titled Financial Action Task Force (FATF) Anti-Money Laundering (AML) Compliance Design & Implementation, they commenced the program since January 2020 and soft concluded in the month of May 2022. The primary objective of the program is to ensure ongoing compliance with regulatory guidelines and relevant international standards and the best industry practices in letter and spirit.

The Bank strictly follows regulatory mandates and Financial Action Task Force (FATF) recommendations on Know Your Customers (KYC)/ Customer Due Diligence (CDD), Anti-money laundering (AML)/Combating Financing of Terrorism (CFT) and financing of proliferation of weapons of mass destruction as well as sanctions resolutions passed by United Nations Security Council (UNSC), sanctions imposed by Office of Foreign Assets Control (OFAC), United States of America (USA), European Union (EU), Office of Financial Sanctions Implementation (OFSI), United Kingdom (UK) and other relevant sanctions. Customers of the Bank are risk-rated, periodically reviewed and screened from the sanctions database, transactions of the customers are monitored from AML perspective, and Suspicious Transaction Reports (STRs) are raised in case of suspicious transactions as per legal and regulatory requirements in Oman. The Bank relies on state-of-the-art IT systems of international specifications to monitor transactions for AML, screen SWIFT® transactions/messages from the sanctions database on real-time basis, and screen customers from the database of Sanctions, Politically Exposed Persons (PEPs), adverse media, law enforcement actions etc. BankDhofar is registered as Participating Foreign Financial Institution (PFFI) with Internal Revenue Service (IRS), Treasury Department, United States of America (U.S.) for implementing & complying with Foreign Account Tax Compliance Act (FATCA) and Regulations. Bank has also successfully implemented regulations issued by the Organization for Economic Cooperation and Development (OECD) on Common Reporting Standard (CRS) and instructed by Central Bank of Oman (CBO) and Oman Tax Authority (OTA).

To promote value-based compliance culture and set the right tone at the top, Bank has been conducting Compliance related training for Board members, Senior Management and employees of the Bank. Face to face / class room role based trainings related to Customer Due Diligence, AML, Sanctions, frauds, Anti Bribery & Corruption etc., were conducted for relevant employees from Compliance, Audit, Trade, Branches, Relationship Managers, Centralized Operations etc., and eLearning courses on Fraud, Information Security, AML and Sanctions related area were available for all the Bank staff, who are required to pass these eLearning courses on an annual basis. Compliance officials have Certified Anti-Money Laundering Specialist (CAMS) certifications from Association for ACAMS, International Diploma in Governance, Risk and Compliance and Advanced Certificate in Managing Sanctions Risk examination from International Compliance Association (ICA) and are fully geared to face the emerging issues/ challenges on account of growing profile of the Bank and ever changing regulatory environment.

Risk Management Division

The primary responsibility of understanding the risks assumed by the Bank and ensuring that these risks are appropriately managed is vested with the Board of Directors of the Bank. The Board has set risk policies, limits and procedures by assessing the risk-bearing capacity of the Bank.

The overall risk management has been delegated to an independent Board Risk Committee (BRC) of the Board of Directors of the Bank, which monitors and controls the overall risk profile (including Maisarah Islamic Banking Services). The BRC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in the Bank. In this task, BRC relies on an independent Risk Management Division within the Bank.

The Bank has a well-established Risk Management Division (RMD) with a team of highly competent and experienced professionals. The primary responsibility of the RMD is to ensure, on a continuous basis, that an effective risk management framework exists and that the various divisions of the Bank, including Maisarah Islamic Banking Services, function within this framework. RMD also functions as an interface between the Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions of the Bank and in ensuring that policies and procedures are tailored to the defined tolerance levels.

The Bank's risk management strategy statement is expressed as follows:

1. Compliance with regulatory capital requirements;
2. Ensuring balanced performance across business units;
3. Placing emphasis on the diversity, quality and stability of earnings;
4. Making disciplined and selective strategic investments;
5. Maintaining adequate capital adequacy;
6. Providing qualitative and quantitative benchmarks to gauge broad alignment between initiatives and risk appetite;
7. Stable funding and strategic liquidity management allowing for business planning within the liquidity risk tolerance and regulatory requirements.

Bank continued to implement its transformation program wherein, current risk management policies, procedures, processes, skill sets, risk information and reporting system and risk appetite were further strengthened. Each of the areas of risk identification, measurement, monitoring, reporting and mitigation were reviewed and enhanced.

1. Risk Appetite

Bank has established a risk appetite framework, duly approved by the Board consisting of the risk appetite statements and dashboards. The framework is operational for the Consolidated entity ie for Conventional entity and Maisarah Islamic Banking Services. The framework is based on a top-down process consisting of specific quantitative and qualitative factors and provides an enforceable risk statement on the amount of risk the Bank is willing to accept in support of its financial and strategic objectives. The risk appetite statement set the "Tone from the Top" and covers various risk factors and appetite against each risk factor. The risk appetite is a key building block of the Bank's risk management culture and risk management framework. The Risk appetite statements are reviewed by senior management who recommend it to the Board for approval. Annual financial plans are reviewed against the risk appetite to ensure alignment. Regular monitoring of risk exposures is carried out to ensure that risk-taking activity remains within risk appetite. Performance against approved risk appetite is measured every quarter and reviewed by the Management Risk Committee, Board Risk Committee & Board. The Bank risk appetite framework has been cascaded to key business segments thereby ensuring that the Bank's aggregate risk exposure is within its desired risk-bearing capacity.

1. Management of various Risks

A brief account of the various identifiable risks and their management process is given below:

1) Credit Risk

Credit risk is defined as the possibility that a borrower or counterparty may fail to meet its obligation in accordance with agreed terms in relation to lending, trading, hedging, settlement and other financial transactions. This risk is primarily managed by proper assessment of inherent risks in credit proposals and ensuring a balanced portfolio of customers meeting the risk appetite of the Bank. The Bank also ensures dealing with customers of good credit standing, a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the accounts. The Bank has taken the following measures to mitigate credit risk:

- Credit Risk Policy addresses credit risk emanating from lending to corporates and individuals. The policy also provides broad criteria for retail loans in a structured manner and is reviewed/ updated on regular basis. The policy has been defined for both Conventional Banking and Islamic Banking separately. The policies of the Bank encompass organizational responsibilities, prudential limits, credit risk rating standards, risk pricing standards, loan review mechanism, delinquent account management and portfolio management.
- Policy on Country and Counterparty Bank credit risk addresses credit risk emanating from exposure to banks as counterparties as well as countries. The maximum exposure that can be taken on a counterparty bank is specified by an internally developed model.
- The Bank has a credit risk rating system and a risk grade is assigned objectively to a borrower based on the single point score provided by the rating model. The grade is assigned to the Standard category of borrowers on a scale of 7. The rating models have been duly validated by the Bank through an independent third party.
- Various credit risk models are used to assess the obligor risk as well as the facility risk and while assessing the credit risk of the borrower, both probability of default and loss given default is estimated.
- Risk-Adjusted Return on Capital (RAROC) is computed to assess the risk-based pricing of each facility, which facilitates in informed decision making.
- The Bank conducts stress tests to assess the impact of credit risk on capital adequacy and profitability under stress situations.
- All the corporate credit proposals from both Conventional banking and Maisarah are reviewed by the RMD to assess the risk factors and suggest mitigates. The observations of RMD form an important input in credit decision making.

The Bank employs experienced and competent staff in the areas of corporate banking and provides them with regular training to upgrade and hone their credit skills. Detailed credit policies and procedures, strict adherence to the segregation of duties, elaborate and well-defined authority levels, periodical audit and examination by the internal auditors ensure that the culture of risk permeates through the business divisions supported by a rigorous environment of checks and balances.

2) Liquidity Risk

Liquidity Risk is the potential inability of the Bank to meet its maturing obligations to the counterparty. Liquidity planning and management are necessary to ensure that the Bank has the ability to fund its liquidity requirement effectively and to meet current and future potential obligations such as loan commitments, contingent liquidity commitments and unexpected deposit outflows.

The Bank has constituted an Asset-Liability Management Committee (ALCO), which is responsible for setting the broad framework for managing the liquidity risk effectively for both the conventional banking and Maisarah. The responsibility of managing the liquidity risk of the Bank, within this framework, lies with the Treasury Department of both the entities; Conventional banking and Maisarah, which discharges this function in association with other business divisions of the Bank.

The Bank has Board approved policy for both the entities on liquidity management which encompasses the assessment of liquidity gaps through cash flow and static approach, reserve against deposits, lending ratio, mitigation of liquidity risk and contingency measures. The Bank has set up a Middle office within RMD to ensure that the Treasury Departments of both the entities operate within these guidelines.

The Middle office regularly monitors the liquidity position of the Bank and helps in managing the liquidity gaps, well in time. It also conducts liquidity risk stress test periodically and Treasury Department ensures that sufficient liquid assets are available with the Bank all the time, to meet any business exigency.

3) Market Risk

Market risk is the risk of loss arising from unexpected changes in financial prices arising out of changes in interest rates, exchange rates, bonds, equity, and commodity prices. The Bank has major exposure in currency, equity and interest rate risk.

Asset-Liability Management (ALM) Policy and Investment Management Policy addresses all the aspects of the market risk. The ALM Policy addresses foreign exchange risk and interest rate risk whereas the Investment Management Policy addresses the equity risk.

The major foreign currency in which the Bank deals on a regular basis is United States Dollar (USD). The established parity between US Dollar and Omani Rial (OMR) substantially reduces this risk. However, in order to control currency exposure risk, limits for intraday and overnight positions have been set up in addition to currency wise stop-loss limits. Limit on net open position has been placed to restrict the Treasury department to take undue currency exposure as per the prudential norm set by the Central Bank of Oman (CBO). All these limits are monitored by the Middle office of the Bank.

BankDhofar manages the interest rate risk by matching the re-pricing of assets and liabilities and operating within the set gap limits. The Middle office in RMD regularly monitors the impact of adverse movement in the interest rate on profitability and economic value of equity in Conventional entity.

Maisarah is also vulnerable to rate of return risk (profit rate risk) and Asset Liability Management (ALM) Policy of Maisarah addresses this risk. Rate of Return risk arises because of unexpected changes in the market rate of return, which adversely affect a Bank's earnings. The profit distribution to Investment Account Holders (IAHs) is based on profit-sharing agreements and thus, Maisarah should not be subject to any significant rate of return risk. However, in order to meet customer's expectations and to remain competitive with the market, Maisarah may forego part or its entire Mudarib share of profit on funds managed on behalf of IAHs, in order to increase return to the IAHs. This absorption of additional risk by the Mudarib is known as Displaced Commercial Risk. Maisarah seeks to mitigate this risk through prudential reserve accounts such as Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR).

The middle office monitors the equity portfolio through daily reporting and assesses the risk inherent in the quoted domestic equity portfolio through the Value at Risk (VaR) approach. Various limits like stop-loss limit, transaction deal limit and realized loss limit are in place to manage the equity risk. All the investment proposals are reviewed by RMD to provide an independent view on the risks associated with them.

The middle office also conducts stress tests periodically to assess the impact of adverse movement of market variables on capital adequacy and places the same to the Board Risk Committee.

4) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal systems, processes, people, or external events. The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Management Risk Committee (MRC), comprising of the Executive Management team of the Bank, precedes BRC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for the management of operational risks within their respective scope of duties. In the financial year 2022, the Bank's operational risks were well controlled and losses from operational risks were kept at a low level. Trained and competent staff oversee the various operational functions of the Bank.

The 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 and 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. Continuing the task of improvement in existing systems and processes, the management system and tools for operational risks were further strengthened during the year.

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 assesses the operational weaknesses in various processes and its likely impact on the Bank. During the RCSA exercise, processes in various departments were reviewed from an operational risk point of view and wherever high-risk events were identified, the existing controls were reviewed. With the completion of the RCSA exercise, a risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks at various levels. 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. In order to avoid unexpected shocks to the financial position of the Bank, a reporting system on 'Potential Losses' has also been introduced. Potential Loss can be defined as an operational event that has not actually crystallized into actual loss but has the potential of adversely impacting the Bank's bottom line.

The operational Risk Unit in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards the achievement of stated goals and objectives. Risk Management Division 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.

5) Country Risk

Country risk arises from changes in the value of foreign exposure due to country-specific conditions, which may result from economic, social, political or natural events and may relate to factors such as exchange controls, currency devaluations, nationalization or expropriation of assets among others.

Country & Counterparty Bank Credit Risk policy addresses the country risk that may arise due to cross border exposure, in a structured manner. The Bank has in place a country risk assessment methodology that grades each country based on their risk profile. Suitable limits are assigned to undertake the business based on the internal risk rating grade of the countries.

The Middle office in association with the Financial Institution department monitors the country's risk and takes suitable steps in event of any downgrade or change in the economic activity of any country.

Internal Capital Adequacy Assessment process

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is an integrated enterprise-wide process that encompasses the governance, management, and control of risk and capital functions within the Bank. It provides a framework for ensuring an appropriate relationship between the risk profile and the capital held by the Bank, both in absolute terms and in terms of composition (Tier I & Tier II). This alignment between the capital and risks makes for better risk management.

The ICAAP covers the assessment of risks under Pillar 1 and Pillar 2 risks, viz. interest rate risk in the Banking book, concentration risk, business risk, reputation, legal and strategic risk. The ICAAP is facilitated by Risk Management and is supported by numerous functional areas which together help determine the Bank's internal capital adequacy assessment.

A Separate Working Group on Capital Planning under ALCO, monitors the overall adequacy of the Bank's available capital in relation to both internal and regulatory capital requirements.

Recovery Department

Recoveries Department is established under Risk Management Division and is primarily responsible for handling and monitoring all Non-Performing Assets. The department is mandated to ensure the implementation of policies/ instructions of the Bank pertaining to the recovery of overdues under all non-performing loan and advances. The main objective of the department is to maximize the recovery by adopting various methods such as;

- Close follow up with the customers for recovery of past dues before initiating legal action.
- Negotiating for mutually acceptable settlements.
- Re-structuring the classified accounts with a definite source of repayments.
- De-classification of accounts in terms of the Bank's extant instruction and CBO's regulation in place from time to time.
- Liaison with Legal Department for demand notices and taking legal action for recovery.
- Regularly monitoring the progress of legal cases with the Bank's external lawyers.
- Coordinating with Royal Oman Police (ROP) and regulatory bodies to expedite various legal processes and execution of decrees and court orders.
- Providing information to Court Appointed Experts for the legal action initiated by the Bank.
- Handling Asset Classification, monitoring security/ valuation of mortgaged assets.
- Validating/ maintaining provisions for Loan Loss Reserve/ Interest Reserve as per IFRS9/ CBO norms.

Human Resources Division (HRD)

The Human Resources Division has played an instrumental role in encouraging a Strong People & Performance Culture. In collaboration with the leadership team and the Board, the Department has been able to drive and deliver corporate HR Transformation Programs and Projects developed with the strategic intent and objective of creating a solid Performance Culture. The Bank has successfully implemented more than 30 Projects & Programs under the HR Transformation Journey: designing and building the right Culture, People, Processes and Systems.

BankDhofar believes that people are the key competitive advantage and biggest differentiator to continue driving sustained performance. The Department strives to develop and invest in people at all levels of the Organization through a common purpose to align stakeholders' objectives, goals and aspirations.

To stay at the top of the game, BankDhofar undertook an organizational structure change with a clear focus on investing in developing national competencies. BankDhofar has appointed talented Omanis in high management positions, which supports the Bank's vision to increase the percentage of Omanization within the leadership pipeline. We believe that effective organizational change leads to a more engaged workforce, improves working practices, and helps achieve higher productivity.

All the staff in the Bank are geared with the necessary functional exposure to enhance niche skills and exchange ideas on areas related to Service Excellence, Technical expertise and international/regional best practices.

The primary objective of the HR Strategy is to enhance employee experience, engagement, open communication & regular feedback, as well as empower employees to grow by creating an environment that supports and fosters a high-performance culture.

Talent Management, Development & Retention

From a Talent management perspective, the department is focused on talent nurturing and retention through implementing focused career development programs, career opportunities and by implementing competitive total rewards and recognition schemes that stimulate aspirations. These Programs are tailored for different talent segments in the Bank to create specialized functional and technical capabilities to cater for emerging businesses, future succession planning needs of the Bank and for fostering a customer-centric drive across Bankdhofar.

The Bank strives to ensure that all high-performance individuals and teams have the right career development opportunities to grow and achieve their potential and career aspirations. As a result of these programs, BankDhofar has reached over 95% Omanization and an attrition rate of less than 5%, being one the lowest in the Omani Banking Sector.

Learning & Development

The Human Resources Division has a leading Learning & Development Academy that runs multiple training and development needs under different streams of learning such as leadership, treasury, risk management, finance, Islamic finance, corporate, retail and regulatory requirements among others. The Academy is a core Hub for all the Learning and Development initiatives in the Bank aiming at improving employee performance, productivity, and career development. The academy is equipped with state of the art facilities including a mock branch and a flexible "Any Time Any Where Learning" digital e-learning tool available for employees to complete the courses assigned to them at their convenience from their work desk using the Learning Management System (LMS) portal or from home using the LMS mobile application.

The academy has delivered many courses all across the Sultanate through traditional class room training as well as the Bank's E-Learning platform. These programs include in-house customized and externally sourced offerings to meet the learning needs of BankDhofar and Maisarah staff. The academy spearheaded the initiative of organizing relevant content and bringing together experts from various specialist units (operations, distribution and business) to meet and address staff training requirements. This initiative accompanied with the launch of the knowledge day, introducing a product each week covering its features, eligibility, process and common errors was instrumental in enhancing sales prospects and building capability.

The Academy conducts Training Needs Analysis (TNA) on an annual basis to assess requirements from each department and build staff caliber, skills and competencies. The Analysis is consolidated into an annual training plan that includes local, International and in-house trainings conducted by talented staff in the bank.

The aspiration of the Academy is to satisfy all learning requirements according to the strategic direction of the bank and prepare competent staff in their area of expertise in each division. The goal is to create champions that drive the bank for sustainable growth and establish a leading financial institution.

Digital People Program

The Division's focus is to continuously enhance employee-related services and experiences across the Bank and enable faster turnaround time, swift processing, and service quality. As an integral part of the digital people strategy, BankDhofar has automated over 90% of its employee services and benefits and has established an HR Contact Center to serve the staff better. The Human Resources Division has also recently launched an analytics and quality assurance unit to provide insight-based dashboards and ensure all service-related processes are agile and meet the expected turnaround times demanded.

Compensation Policy

In line with the CBO guidelines on remuneration disclosures, the Bank has described the relevant qualitative and quantitative disclosures in this Annual Report.

Qualitative Disclosers:

The Compensation Policy supports the Bank's long-term business objectives. The current compensation practices are in line with the guiding principles of the CBO guidelines spanning across Risk Management and Risk Tolerance, supporting the business strategy, objectives, values and long-term interests of the firm, avoiding conflicts of interest, governance, managing the control functions' pay, remuneration and capital management and profit-based measurement and risk adjustment. The Policy is reviewed at periodic intervals.

Bank has a Board Nomination & Remuneration Committee (BNRC), which consists of a minimum of three Board Members, with one Member representing the Board's Risk Management Committee. The Committee's mandate is to frame compensation policies, systems and processes for implementation and or review.

The Total Rewards Strategy of the Bank supports the growth of the Bank in line with the long-term vision and objectives that take into account the long-term health of the institution and financial stability while at the same time accomplishing the following goals related to our crucial talent:

- Attract and retain employees
- Motivate and reward performance
- Align rewards with the organizational culture
- Drive synergy between organizational and employee performance
- Encourage desired behaviours and recognize the required results
- Focus employees on achieving the organizational goals and objectives
- Ensure the Pay mix is appropriate to generate desired productivity, and behaviour and is in line with CBO guidelines
- Transparent and lucid compensation systems to ensure employee adoption

Material Risk Takers

Material Risk-takers are identified to include AGM & above and all staff with bonuses of more than OMR 35,000, within the agreed framework and in line with CBO guidelines. The Bonuses of the MRTs are deferred over four years, wherein the first year, 55% of the Bonus, is paid as cash and the balance is paid equally over the subsequent three years, subject to certain conditions relating to malus and clawback. The Compensation Policy also specifies the treatment of payments unvested bonus payments considering various scenarios.

Risk Adjustment

The Bank ensures that effective risk management processes are embedded into compensation systems addressing ex-ante and ex-post adjustments through a series of measures. The risk-adjusted bonus funding mechanism comprises key components including Compensation Governance, Determination of Bonus Methodology, identification of Employee Segments, and the Deferral Schedule.

The risk-adjusted bonus funding mechanism shall comprise Compensation Governance, Determination of Bonus Methodology, Employees Group, and Deferral Schedule. However, this mechanism will not be applied to accrue the bonus pool for the control functions staff.

The existing methodology to determine the risk-adjusted bonus funding mechanism is summarized below:

a. The Bank assesses its liquidity and capital requirements before approving the bonus pool

b. The net profit is adjusted to factor in the various risk exposures faced by the Bank

c. The Bank's bonus distribution to its staff is based on performance against pre-determined measures.

d. This consists of short-term and long-term incentives appropriate to the employee's role.

Control Functions

The Bonus for all staff employed in the Control Functions will be derived through a specific plan designed to adhere to the CBO guidelines.

Malus and Clawback

The Policy of Malus & Claw Back is in place to ensure that the Bonus is paid based on accurate financial and operating data. If the Bank determines to seek recovery for the bonus payment due to causes mentioned in the Policy, the Bank shall have the right to demand from the staff to reimburse such amount to the Bank.

Quantitative Disclosures

The Board Nomination and Remuneration Committee (BNRC) has held eight meetings in 2022. As per the Policy, the bonus pool is a variable factor and depends on the Bank's overall performance; the Pool is funded by taking a percentage of the Net Profit.

The six key management members' salaries for 2022 were OMR 1,694,385. The amount disclosed is the amount paid for the reporting period. Specific components of the key management bonuses are paid on a deferral basis as per the guidelines issued by the Central Bank of Oman.

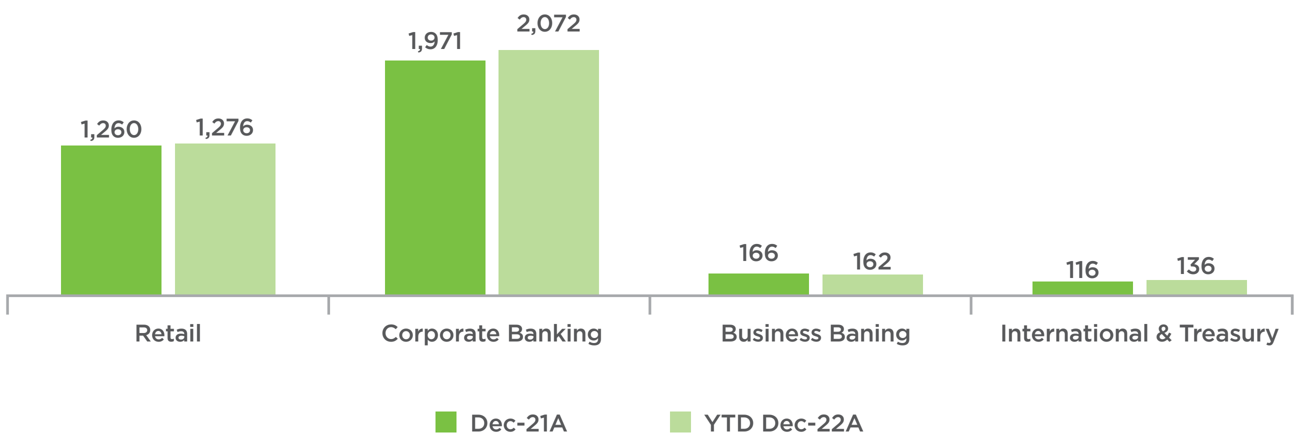
Financial Performance

The Bank reported net profit of RO 34.17 million for the year ended 31 December 2022 compared to RO 25.12 million for the comparative year which represents a increase of 36.03%.

Loans and advances (including Islamic financing receivables)

Net loans and advances including Islamic financing, exhibited YoY increase of 2.52% and reached to RO 3.43 billion as at 31 December 2022 from RO 3.35 billion at the 31 December 2021. Customer Deposits including Islamic deposits, on the other hand, witnessed a reduction and recorded YoY decline of 2.82%. In absolute terms, customer deposits reduced to RO2.89 billion as at 31 December 2022 compared to RO 2.98 billion as at end of previous comparative year.

An analysis of our key gross loan portfolio by segment is tabulated below:

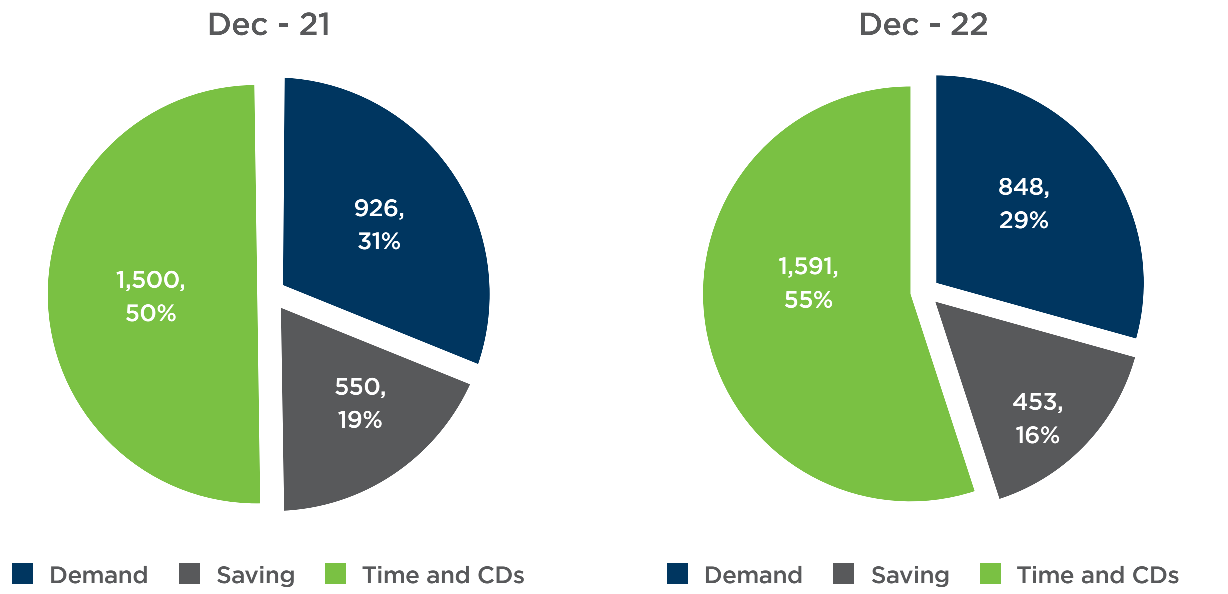


RO Million

Analysis of our Loan portfolio by product is tabulated below:

Loans, advances and financing to customers RO'000	31-Dec-22 RO'000	31-Dec-21 RO'000	Growth %
Overdrafts	**123,550**	113,544	8.81%
Loans	**2,820,805**	2,769,153	1.87%
Loans against trust receipts	**97,069**	91,730	5.82%
Bills discounted	**31,063**	29,160	6.53%
Advance against credit cards	**8,669**	8,144	6.45%
Islamic financing receivables	**565,496**	502,091	12.63%
Gross loans, advances and financing	**3,646,652**	3,513,822	3.78%

The analysis of our Key deposits by product below:



Deposits from customers (RO Million)	31-Dec-22	31-Dec-21	Growth %
Current accounts	**680,269**	754,317	(9.82)%
Savings accounts	**398,950**	485,352	(17.80)%
Time deposits	**1,324,059**	1,287,917	2.81%
Margin accounts	**13,409**	11,036	21.50%
Islamic Customer deposits	**475,132**	437,017	8.72%
Grand Total	**2,891,819**	2,975,639	(2.82)%

Analysis of income and expenses:

	31-Dec-22 RO'000	31-Dec-21 RO'000	Variance %
Net Interest Income and Income from Islamic Financing	**122,416**	102,423	19.52%
Operating income	**143,152**	126,446	13.21%
Operating expenses	**69,683**	72,340	(3.67)%
Expected credit losses	**34,343**	24,651	39.32%
Net profit for the year	**34,173**	25,123	36.02%
Total assets	**4,317**	4,438	(2.74)%
Net loans and Islamic financing	**3,430**	3,346	2.52%
Customer deposits	**2,891**	2,975	(2.82)%
Total equity	**717**	698	2.66%

Bank's interest income on loans and Islamic financing receivables reached to RO 221.27 million compared to RO 206.72 million resulting year on year (YoY) growth of 7.04%. However, a decrease in interest expense enhanced growth in net interest income and recorded YoY increase of 19.53%. Consequent to decrease in interest expense, the net interest and financing income showed increased trend and stood at RO 122.42 million for the year ended 31 December 2022 compared to RO 102.42 million for the year 2021.

Non-funded income declined by 13.66% by reaching RO 20.74 million compared to RO 24.02 million for the year 2022 and 2021 respectively.

Total operating income stood at RO 143.15 million for the year ended December 2022 versus RO 126.45 million for the comparative period of 2021, showing Increase of 13.21%. Banks's operating expenses for the year ended 31 December 2022 were lower than last year by 3.68% and declined to RO 69.68 million compared to RO 72.34 million for the previous financial year. Due to higher operating income and lower costs, the Bank's cost to income ratio improved to 48.7% as at 31 December 2022 compared to 57.21% for the last year.

Net Expected Credit Loss 'ECL' for the year 2022 stood at RO 33.27 million after recoveries of RO 11.25 million as compared to RO 24.65 million after recovery of 10.29 million for the year 2021, an increase of RO 8.6 million. Gross NPL (Non-performing loans) increased to 5.87% as at 31 December 2022 from 5.11% as at 31 December 2021. Net NPL, net of interest reserve and ECL is 2.00% as at 31 December 2022 compared to 1.91% at 31 December 2021. The coverage ratio has improved from 93.29% as at 31 December 2021 to 100.98% as at 31 December 2022.

The earnings per share (EPS) for year ended 31 December 2022 were RO 0.008 as compared to RO 0.005 for the corresponding previous year. The ROSE increased from 4.64% as at 31 December 2021 to 6.19% as at 31 December 2022.

Bank's capital adequacy

In terms of capital soundness, the Bank carries strong capital position of Core Equity Tier 1 Ratio (CET-1) of 12.91% as at 31 December 2022 (2021: 12.89%), Tier 1 Capital Ratio of 16.74% (2021: 16.75%) and total Capital Adequacy Ratio of 17.61% (2021: 17.74%), compared to Regulatory Minimum of 8.25%, 10.25% and 12.25% respectively. During the year the bank successfully issued OMR 115.5 million Tier 1 perpetual securities (AT1 bonds) by way of private placement to investors, replacing the USD 300 million (AT1 bond).

Distributed & Proposed Dividend

Considering the market conditions and to preserve the capital through internally generated profits, the Board of Directors in their meeting held on 25 January 2023 proposed 5% cash dividend and nil bonus share issue distribution for the year ended 31 December 2022, subject to Regulatory and Shareholders approval.

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

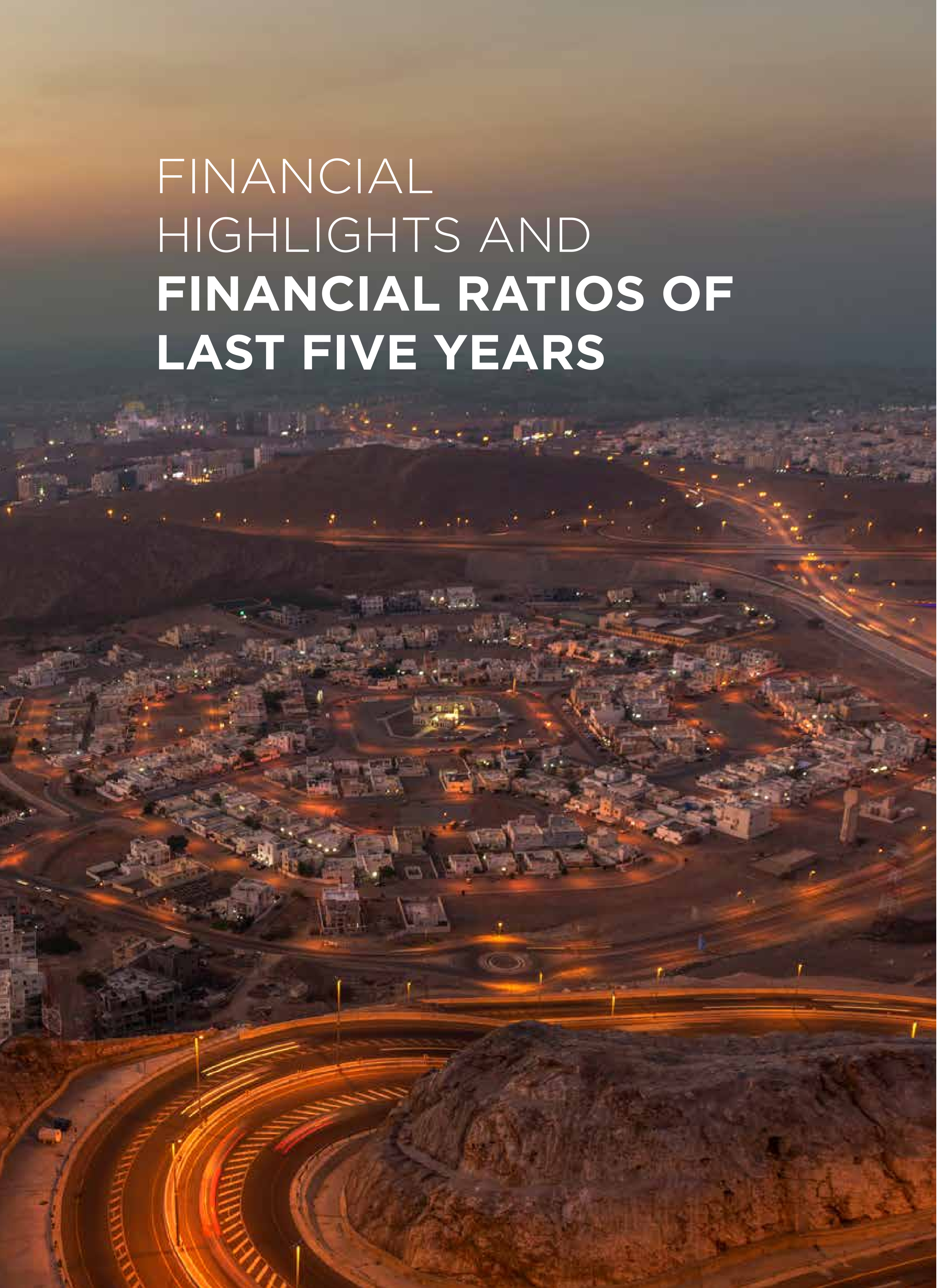
Year	2017	2018	2019	2020	2021
Cash Dividends	12%	10%	3%	4%	2%
Bonus Shares	8%	7%	Nill	Nill	Nill

Way-forward; Future Outlook

Oman 2023 State Budget envisioned continuation of ongoing economic recovery. The 2023 Budget assumes oil price of US$ 55 per barrel with an average oil production of 1.18 million barrels per day.

The top priorities of the 2023 Budget include fiscal sustainability and economic diversification and has embarked on projects to improve the fiscal performance such as the establishment of integrated Gas Company, social protection system, government service companies etc.

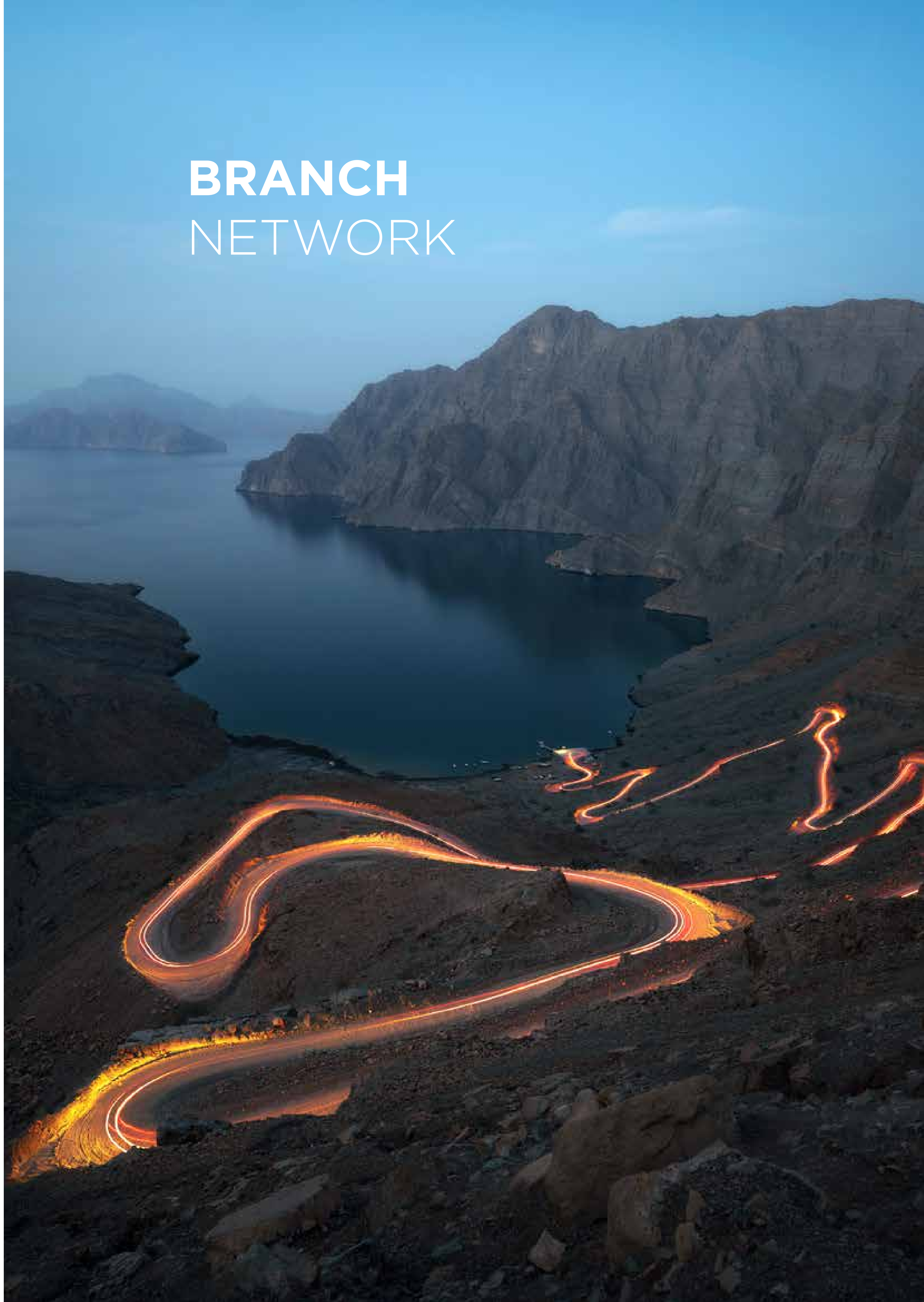
FINANCIAL HIGHLIGHTS AND **FINANCIAL RATIOS OF LAST FIVE YEARS**



FINANCIAL HIGHLIGHTS OF LAST FIVE YEARS					
(OMR'000)	**2022**	**2021**	**2020**	**2019**	**2018**
NET INTEREST INCOME (CONVENTIONAL)	100,661	82,759	92,219	84,649	87,918
NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES	21,755	19,664	15,421	10,182	9,509
NON INTEREST INCOME	20,736	24,023	22,353	35,133	34,426
OPERATING COSTS	69,683	72,340	65,079	71,474	65,456
OPERATING PROFIT (before Impairment losses)	73,469	54,106	64,914	58,490	66,397
PROFIT FROM OPERATIONS	40,204	29,455	35,923	36,092	59,743
NET PROFIT FOR THE YEAR	**34,173**	**25,123**	**30,585**	**30,244**	**50,281**
At year-end					
TOTAL ASSETS	4,317,332	4,438,786	4,257,023	4,325,845	4,213,490
NET LOANS, ADVANCES AND FINANCING	3,430,486	3,346,223	3,265,488	3,063,350	3,158,844
CUSTOMER DEPOSITS	2,891,819	2,975,639	2,861,315	2,943,188	2,924,504
TOTAL EQUITY	717,077	698,519	695,864	686,155	698,162
SHARE CAPITAL	299,635	299,635	299,635	299,635	280,033
FULL SERVICE BRANCHES	69	64	67	71	71
ATMs / CDMs / FFMs/ MFKs	230	192	189	202	190
STAFF	**1,509**	**1,481**	**1,522**	**1,586**	**1,600**

Financial Ratios of Last Five Years	As at 31 December 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019	As at 31 December 2018
1. PROFITABILITY					
Return on Weighted Average Total Equity (including AT1)	4.83%	3.60%	4.43%	4.37%	7.82%
Return on Weighted Average Shareholders Equity	6.19%	4.64%	5.71%	5.64%	9.92%
Return on Weighted Average Paid-up Capital	11.40%	8.38%	10.21%	10.43%	19.88%
Return on Average Assets	0.78%	0.58%	0.71%	0.71%	1.19%
Non-Interest Income to Operating Income	14.49%	19.00%	17.20%	16.09%	25.67%
Operating Expenses to Operating Income	48.68%	57.21%	50.06%	55.00%	50.50%
2. LIQUIDITY					
Net Loans to Total Deposits	118.63%	97.37%	98.56%	89.22%	95.91%
Total Customer Deposits to Total Deposits	83.47%	86.59%	86.36%	85.72%	88.80%
Net Loan to Customers Deposits	118.63%	112.45%	114.13%	104.08%	107.33%
3. ASSET QUALITY RATIOS					
Loan Loss Provisions to Total Loans	5.93%	4.77%	4.23%	3.72%	4.10%
Non-Performing Loans to Total Loans	5.87%	5.11%	4.53%	4.67%	3.68%
Non-Performing Loans Net of Interest Reserve to Total Loans	4.76%	4.26%	3.81%	3.91%	1.99%
Net Non-Performing Loans	2.00%	1.91%	1.81%	2.14%	0.73%
Loan Loss Provisions to Total Non-Performing Loans	100.98%	93.29%	93.35%	79.58%	111.38%
4. CAPITAL ADEQUACY					
Common Equity Tier 1 Ratio	12.91%	12.89%	12.45%	12.59%	11.88%
Tier 1 capital ratio	16.74%	16.75%	16.27%	16.40%	15.52%
Total Capital Adequacy Ratio	17.61%	17.74%	17.70%	17.86%	17.33%
Shareholder's Equity/ Total Assets	13.01%	12.23%	12.69%	12.27%	12.88%

BRANCH NETWORK



Branch Network

Branch
Muscat North Area
Al Khoudh
Al Khoudh 7 Service Branch
Seeb Town
18th November Branch Service Branch
Ghala
Bausher New Branch
Muscat International Airport
Mall of Muscat Branch
Mabellah Service Branch
Mod Ghala
OmanTel Mini Service Branch
New Muscat International Airport
Muscat Center Area
Muscat Grand Mall
Qurum
New Bausher
Amarat
Al Amerat 6 Service Branch
Al Khuwair Service Brnach
Muscat South Area
MBD
MBD South Service Branch
Muscat
Muttrah
Quriyat
Al Wattayah Service Brnach
Ruwi
Wadi Kabir

Branch
Al-Batinah South Area
Barka
Barka Service Branch
Rustaq
Suwaiq
Muladdah
Khadhra
Al-Batinah North Area
Sohar
Khaboura
Saham
Hafeet
Falaj Al Qabail
Shinas
Buraimi
Liwa Service Branch
Al-Dakhlyah Area
Nizwa
Sumail
Izki
Bahla
Bid Bid
Adam
Farq Service Branch
Al Araqi Service Branch
Al-Buraimi & Dhahira Area
Al Buraimi
Buraimi Industrial Area
Yanqul
Ibri

Branch Network

Branch
Al-Sharqyah North Area
Ibra
Sinaw
Samad A'Shan
Al Muntrib
Mudhaibi
Safalt Ibra Service Branch
Al-Sharqyah South & Wosta Area
Sur
J. B. B. Ali
J. B. B. Hassan
kamil Al Wafi
Al Duqum
Dhofar East Area
Salalah
Saada
Taqa
Mirbat
Dhofar West Area
Salalah Gardens Mall
Salalah commercial District

MAISARAH
للخدمات المصرفية الإسلامية
Islamic Banking Services

Branch
Azaiba
Salalah
Sohar
Birkat Al Mouz
Al Hail
Greater Muttrah
Al Khuwair
Sur
Al Araqi
New Salalah

Branch
Al Riadah Prestige Opera Galleria

Customer Engagement Hub contact details	
BankDhofar	24791111
Maisarah	24775777

Branch
Corporate Centre

The areas are as per the administrative distribution of the Bank.

DISCLOSURE REQUIREMENTS **UNDER PILLAR-III OF BASEL II & III**

The Board of Directors
Bank Dhofar SAOG
PO Box 1507
Ruwi
Postal Code 112
Sultanate of Oman

Dear Sirs

Agreed-upon procedures report of factual findings to the Board of Directors of Bank Dhofar SAOG (the "Bank") in respect of Basel II - Pillar III and Basel III Disclosures (the "Disclosures") for the year ended 31 December 2022

Purpose of this Agreed-upon procedures report

This report is produced in accordance with the terms of our agreement dated 8 January 2023. The procedures, as set out in Circular No. BM 1027 dated 4 December 2007 were performed solely to assist the directors of the Bank in evaluating the Bank's compliance with the disclosure requirements set out in the CBO's Circular No. BM 1009 dated 13 September 2006, BM 1114 dated 17 November 2013 and, Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018, letter BSD/CB/2020/001 dated 18 March 2020 and letter BSD/CB/2020/005 dated 3 June 2020 (the "Circulars") and may not be suitable for another purpose.

Your responsibilities

The directors of the Bank have prepared the Disclosures in accordance with the Circulars as issued by the CBO and remain solely responsible for it and for the creation and maintenance of all accounting and other records supporting its contents. The Bank's directors are also responsible for identifying and ensuring that the Bank complies with the Disclosure requirements as set out in the Circulars as issued by the CBO.

You are responsible for determining that the scope of the services is sufficient for your purposes and have confirmed that the procedures described herein are appropriate for the purpose for which the services were engaged.

Our responsibilities

We have performed the procedures agreed with you as set out in Circular No. BM 1027 dated 4 December 2007. Our work was performed in accordance with the International Standard on Related Services (ISRS) 4400 (Revised) 'Agreed-Upon procedures Engagements.'

An Agreed-upon procedures engagement involves performing the procedures that have been agreed with you, and reporting the findings, which are the factual results of the Agreed-upon procedures performed. We make no representation regarding the appropriateness of the Agreed-upon procedures.

pwc

Agreed-upon procedures report of factual findings to the Board of Directors of Bank Dhofar SAOG (the "Bank") in respect of Basel II - Pillar III and Basel III Disclosures (the "Disclosures") for the year ended 31 December 2022 (continued)

Professional Ethics and Quality Management

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

Our firm applies the International Standard on Quality Management (ISQM) 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and findings

We performed the procedures agreed with you and as prescribed in the CBO Circular No. BM 1027 dated 4 December 2007 with respect to the Disclosures of the Bank, set out on pages 1 to 45 as at and for the year ended 31 December 2022.

Based on the above procedures performed no exceptions were noted.

Our procedures, as stated in our agreement, did not constitute an audit or assurance engagement made in accordance with generally accepted auditing or assurance standards, the objective of which would be the expression of assurance on the contents of the Disclosures. We do not express such assurance. Had we performed additional procedures or had we performed an audit or assurance engagement on the Disclosures, other matters might have come to our attention that we would have reported to you. This report relates only to the Disclosures and does not extend to any financial statements of the Bank taken as a whole.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of any financial statements of the Bank.

Restriction on distribution and use

This report is solely for your use in connection with the purpose specified above and as set out in our agreement and is not to be used for any other purpose. No part of this report is to be copied or distributed to any other party except as permitted under the terms of our agreement. We do not accept any liability or responsibility to any third party.

PricewaterhouseCoopers Corp.

PricewaterhouseCoopers LLC
Muscat, Sultanate of Oman
2 March 2023

برايس وترهاوس كوبرز ش.م.م
C.R. No 1230865
PricewaterhouseCoopers LLC

1. Introduction:

The following detailed qualitative and quantitative public disclosures are provided in accordance with Central Bank of Oman (CBO) rules and regulations on capital adequacy standards issued through circular BM 1009 on Guidelines on Basel II, Islamic Banking Regulatory Framework and BM 1114 on Regulatory Capital and Composition of Capital Disclosure Requirement under Basel III. The purpose of these requirements is to complement the capital adequacy requirements and the Pillar II – Supervisory review process. These disclosures are intended for market participants to assess key information about the Bank's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among banks operating in the market.

The major highlights of the Central Bank of Oman (CBO) regulations on capital adequacy are:

a. To maintain capital adequacy ratio (CAR) at a minimum of 11% effective from 01 April 2018. Previously the minimum CAR requirement was 12%;

b. The predominant form of capital shall be Tier 1 capital of which Common Equity Tier (CET1) will form the major component;

c. To maintain capital adequacy ratio (CAR) at a minimum of 13.5% (including capital conservation buffer) effective from 01 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%;

d. The Bank is required to maintain at all times, the following minimum capital adequacy ratios:

   o Within the overall requirement of 12.25% CAR (including capital conservation buffer), Tier 1 ratio is to be maintained at a minimum of 10.25%;

   o Within the minimum Tier 1 ratio of 10.25%, minimum CET 1 ratio is to be maintained at 8.25%; and

   o Further, within the minimum overall capital ratio of 1 1% (excluding capital conservation buffer), Tier 2 capital can be admitted up to a maximum of 2% of Risk Weighted Assets (RWA) of the Bank;

e. To adopt the Basel II standardized approach for credit risk, using national discretion for:

   o Adopting the credit rating agencies as external credit assessment institutions (ECAI) for claims on sovereigns and Banks;

   o Adopting simple/comprehensive approach for Credit Risk Mitigants (CRM)

   o Treating all corporate exposures as unrated and assign 100% risk weight.

f. To adopt standardized approach for market risk and basic indicator approach for operational risk.

g. Capital Adequacy returns are submitted to CBO on a quarterly basis and the Bank's external auditors AUP report on capital adequacy returns on an annual basis.

As per Islamic Banking Regulatory Framework:

Islamic Windows of domestic conventional banks shall have and at all times maintain an allocated capital of not less than OMR 10 million or such higher amount as may be determined from time to time by the Central Bank.

Islamic windows are also required to maintain the minimum capital adequacy ratio of 11% of the RWA at all times. Within 11% Capital adequacy ratio, Islamic Window need to maintain minimum of 9% of RWA as Tier 1 Capital ratio. The capital buffer requirement is imposed at the consolidated level and thus, is not applicable at the Islamic window level.

2. Scope of Application:

The Bank has no subsidiaries or significant investments. However, Bank has introduced Islamic Banking through an Islamic window named as "Maisarah". Accordingly, the information in the document pertains to the consolidated entity i.e., for both conventional banking & Islamic window (Maisarah). The disclosure pertaining to Maisarah is provided separately.

3. Basel II & III Disclosures:

3.1 Capital Adequacy Norms

The Bank has calculated its Common Equity Tier 1 (CET1), Tier 1 and Total Capital Ratios in the following manner:

1. CET1 Capital Ratio = Common Equity Tier 1 Capital/ Total RWA
2. Tier 1 Capital Ratio= Tier 1 Capital/ Total RWA
3. Total Capital Ratio = Total Capital/ Total RWA

Tier 1 Capital is the sum of CET1 Capital and Additional Tier 1 Capital (AT1) and Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

The denominator, i.e, Total risk-weighted assets (RWA) is calculated as the sum of credit risk weighted assets, market risk-weighted assets, and operational risk-weighted assets, as provided for in CBO circular BM-1009 and Islamic Banking Regulatory Framework. In the case of Islamic banks, CBO has provided an adjustment factor of alpha at 30% in the RWA in the manner stipulated under Article 2.3.1 of title 5 of IBRF relating to Capital adequacy. However, as per communication received from CBO, for the time being no adjustment is applicable in the computation of RWA.

Based on the presently prescribed level of capital adequacy, banks operating in the Sultanate will be required to maintain at all times, the following minimum capital adequacy ratios as per Basel III with effect from 18 March 2020;

CET 1 Capital Ratio: 8.25% of risk weighted assets

Tier 1 Capital Ratio: 10.25% of risk weighted assets (Going concern capital)

Total Capital Ratio: 12.25% of risk weighted assets (Gone concern capital)

With effect from 01 January 2016, Capital Conservation Buffer (CCB) has been implemented in a phased manner. The CCB was to be enhanced by 0.625%, thereby reached a level of 2.5% in 2019. However, amid the situation with COVID-19, CBO reduced the CCB to 1.25%, as a measure to support banks and FLCs. Further, CBO has also finalised Countercyclical Capital Buffer, which is intended to protect the banking sector as a whole from systemic risk that is often developed during an economic upswing, when there is a tendency towards excessive aggregate credit growth. The Countercyclical Capital Buffer lies between 0% and 2.5% of the total RWA; however presently the countercyclical capital buffer is not imposed. The capital buffer requirements shall be imposed at consolidated level but will not be applied at the Islamic Banking Window level. Thus from 18 March 2020 onwards, assuming a zero countercyclical capital buffer, banks shall operate above CET1, Tier 1 and Total Capital levels of 8.25%, 10.25% and 12.25% respectively due to Covid-19 situation. However, before Covid-19 situation banks were expected to operate above CET1, Tier 1 and Total Capital levels of 9.5%, 11.5% and 13.5% respectively.

3. Basel II & III Disclosures (Continued)

3.1 Capital Adequacy Norms (Continued)

Based on the Basel III requirement, the capital structure of the Bank (as a consolidated entity) is presented as per Annexure I. A reference is invited to paragraph 91 of the Basel III rules, which states that banks should disclose "a full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements". The reconciliation process laid down is aimed at addressing the issues of disconnect between the numbers disclosed for the calculation of regulatory capital and the numbers used in the published financial statements. However, there is no difference between the regulatory consolidation and the accounting consolidation. The components used in the definition of capital disclosure template are provided as per Annexure IIa and the same are mapped to the composition of capital disclosure template as per Annexure IIb.

Basel II, Pillar 3 guidance note states that banks should provide qualitative disclosure that sets out "Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments." Banks are required to disclose a description of the main features of regulatory capital instruments along with the full terms and conditions of the regulatory capital instruments issued by them. Bank presently has three types of capital instruments viz., Common Shares, Perpetual bonds in the form of Additional Tier 1 Capital and Subordinated Debt. The summary disclosure for these regulatory capital instrument issued by the Bank is provided at Annexure III.

3.2. Capital Structure:

The capital base for complying with capital standards is quite distinct from accounting capital. The regulatory capital is broadly classified into two categories – Tier I and Tier II. Bank's capital structure also consists of Tier I capital and Tier II capital.

Tier I capital includes paid up capital, share premium, Additional Tier I capital instruments, legal and general reserves and other disclosed free reserves, including subordinated loan reserves, non-cumulative perpetual preferred stocks and retained earnings (available on a long term basis) less regulatory adjustments like cumulative losses of financial instruments classified as Fair Value through Other Comprehensive income (FVOCI), goodwill & other intangibles.

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair value gains on FVOCI instruments, general loan loss provision/ general loan loss reserve in capital and subordinated term debt subject to certain conditions. Tier II capital of the Bank also includes 45% of Investment revaluation reserve and general provisions to the extent of total Stage 1 Expected Credit Loss (ECL) and permitted Stage 2 ECL ECL ie 60% of the incremental ECL (Stage 2 ECL at a respective reporting date minus stage 2-ECL as at 31 December 2019) may be added back to the Tier 2 capital. The incremental stage 2 ECL would not be subject to any ceiling for the time being. The existing Stage 1 and Stage 2 ECL shall remain subject to 1.25% of the Credit Risk Weighted Assets.

3. Basel II & III Disclosures (Continued)
3.2. Capital Structure: (Continued)

The details of capital structure are provided as under:

CAPITAL STRUCTURE:	RO'000 Amount
Paid up capital	299,635
Share premium	95,656
Legal reserve	67,955
Special reserve	16,988
Subordinated loan reserve	-
Retained earnings	57,111
Common Equity Tier (CET) I capital	**537,345**
Deferred Tax Assets	(6,127)
Less Intangible Assets, including losses, cumulative	(709)
Cumulative unrealized losses recognized directly in equity	(5,906)
CET I Capital – Regulatory Adjustments	**(12,742)**
Total CET I capital	**524,603**
Additional Tier I Capital	**155,500**
Total Tier I Capital	**680,103**
Investment revaluation reserve (45% only)	1,006
General provision (Sum of Stage 1 and permitted Stage 2 provision subject to max of 1.25% of credit RWA)	34,226
Subordinated loans	-
Total Tier II capital	**35,232**
Total eligible capital (Tier I + Tier II Capital)	**715,335**

3. Basel II & III Disclosures (Continued)

3.3 Capital Adequacy Ratio:

The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings of external credit assessment institutions is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

The Bank's capital adequacy ratio is 17.61% as against the CBO requirement of 12.25% as at 31 December 2022. The Bank's Total Capital Adequacy Ratio, without add-back of the incremental Stage 2 ECL to Tier-2 capital , is 17.14%. The Bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks the Bank is exposed to and provides market return to the shareholders. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors and senior creditors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalized at all times.

The Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing Bank's capital adequacy in relation to the risk profiles as well as a strategy for maintaining the capital level. The objective of ICAAP document is to explain the Risk policies adopted, Target risk structure and Capital planning, the process of assessing the capital adequacy for credit, market and operational risk, Specific assessment procedures for risks not covered under Pillar I, process of Internal Control Mechanism and stress testing methodologies adopted by the Bank.

Bank has also formed working group on capital planning which meets periodically and assess the capital adequacy to support projected asset growth. The capital adequacy ratio is periodically assessed and reported to the Board Risk Committee (BRC). The composition of capital in terms of Common Equity Tier I, Additional Tier I, Total Tier I and Tier II are also analyzed to ensure capital stability and to reduce volatility in the capital structure.

1) Position of Risk weighted Assets is presented as under:

S. NO.	Details	Gross Balances (Book Value)	Net Balances (Book Value)*	Risk Weighted Assets
		RO'000	**RO'000**	**RO'000**
1	On balance sheet items	4,828,945	4,485,476	3,333,124
2	Off balance sheet items	400,715	524,268	397,114
3	Derivatives	828,133	834,472	14,112
4	**Total Credit Risk**	**6,057,793**	**5,844,216**	**3,744,350**
5	**Market Risk**	**-**	**-**	**70,428**
6	**Operational Risk**	**-**	**-**	**248,375**
7	**Total Risk Weighted Assets**	**-**	**-**	**4,063,153**

* Net of provisions and, reserve interest

3. Basel II & III Disclosures (Continued)
3.3 Capital Adequacy Ratio: (Continued)

2) Detail of Capital Adequacy:

S. NO.	Details	RO'000
1	**Common Equity Capital**	**524,603**
1	Tier 1 Capital	680,103
2	Tier 2 Capital	35,232
3	Tier 3 Capital	-
4	**Total eligible capital**	**715,335**
5	Capital Requirement for Credit Risk	3,744,350
6	Capital Requirement for Market Risk	70,428
7	Capital Requirement for Operational Risk	248,375
8	**Total Required Capital**	**4,063,153**
9	Common Equity Capital Ratio	12.91%
10	Tier 1 Capital Ratio	16.74%

3.4 Risk Exposure and Assessment:

The risks to which banks are exposed to and the techniques that banks use to identify, measure, monitor and control those risks are important factors that market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk, interest rate risk in the banking book and operational risk. For each separate risk area (e.g. credit, market, operational, banking book interest rate risk) the Bank describes its risk management objectives and policies, including scope and nature of risk reporting and/or measurement systems and risk mitigation strategies.

3.4.1 Credit Risk:

Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the Bank's dealings with or lending to a corporate, individual, another bank, financial institution or a country. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

The Bank has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent benchmarks, limits for management of credit risks. Continuous review of the credit risk policy is done to always adapt to the business environment and regulatory requirements.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

The Board of Directors delegate credit approval powers for Wholesale Banking and Retail Banking functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

Approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

Board Executive Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain loan approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) 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 of all the Corporate, Business Banking and Project Finance credit proposals before they are considered by the appropriate approving authorities. The borrowers in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the borrower and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition, RMD reviews grading of obligors and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category); reviews are conducted at higher frequency.

The Bank has also established Credit Control department which looks after Loan Review Mechanism (LRM). LRM helps in ensuring credit compliance with the post-sanction processes/ procedures laid down by the Bank from time to time. It involves taking up independent account-specific reviews of individual credit exposures as per the Board approved LRM Policy. Credit Control department also monitors various credit concentration limits. Counterparty/group exposures are limited to 15% of the Bank's networth as stipulated by CBO and where a higher limit is required for projects of national importance, prior approval of CBO is obtained. The credit control department also undertakes monitoring of the retail loans.

Retail lending is in accordance with the CBO guidelines. The Bank uses a score card as a selection tool for the personal loans in conventional banking. Bank has also implemented Loan Origination System (LOS) which has automated the workflow of retail loan credit proposals in conventional banking. In Maisarah, retail financing is mainly in auto and housing finance category.

In addition to these, the Bank also undertakes business with international and local banks. The maximum exposures to international banks are defined through internally developed model and the total exposure to such counterparty banks is linked to the net worth of the Bank and regulatory ceiling. The maximum exposures to local banks is capped at 15% of the Bank's networth . The Bank has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the internal risk rating grades assigned to various countries and these limits are reviewed on half yearly basis. In addition to the internal limits, the Bank also adheres to the limits for countries and counterparty banks prescribed by CBO strictly.

In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention has also been applied to Maisarah financing.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Bank has adopted the International Financial Reporting Standards (IFRS) 9 guidelines for estimation of Expected Credit Loss as per International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, effective from 1 January 2018.

Credit Risk exposure of the Consolidated entity (i.e. both Conventional banking & Maisarah)

1) Analysis of gross credit exposures, plus average gross exposure over the period broken down by major types of credit exposure:

S. NO.	Type of Credit Exposure	Average Gross exposure		Total Gross exposures	
		RO'000	RO'000	RO'000	RO'000
	Conventional	**2022**	2021	**2022**	2021
1	Overdrafts	**119,878**	121,263	**123,550**	113,544
2	Loans	**2,729,681**	2,752,245	**2,820,805**	2,769,153
3	Loans against trust receipts	**95,687**	91,520	**97,069**	91,730
4	Bills purchased /discounted	**32,843**	36,011	**31,063**	29,160
5	Advance against credit cards	**8,272**	8,126	**8,669**	8,144
	Conventional Total	**2,986,361**	3,009,165	**3,081,156**	3,011,731
	Islamic				
6	Murabaha Receivables	**25,273**	30,593	**18,823**	29,218
7	Mudaraba Financing	**12,064**	46,072	**9,437**	17,819
8	Ijarah Assets	**53,478**	15,127	**63,814**	45,228
9	Wakala Financing	**76,701**	56,105	**76,229**	61,606
10	Diminishing Musharaka Financing	**368,800**	348,392	**397,193**	348,220
	Total Islamic	**536,316**	496,289	**565,496**	502,091
	Grand Total	**3,522,677**	3,505,454	**3,646,652**	3,513,822

BankDhofar S.A.O.G
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

2) Geographic distribution of exposures, broken down in significant areas by major types of credit exposure:

S. NO.	Type of Credit Exposure	Oman RO'000	Other GCC Countries RO'000	*OECD Countries RO'000	India RO'000	Pakistan RO'000	Other RO'000	Total RO'000
		1	2	3	4	5	6	7
1	Overdrafts	**123,550**	-	-	-	-	-	**123,550**
2	Personal Loans	**2,820,805**	-	-	-	-	-	**2,820,805**
3	Loans against trust Receipts	**96,643**	-	-	-	-	426	**97,069**
4	Bills Purchased / negotiated	**30,793**	-	-	-	-	270	**31,063**
5	Advance against credit cards	**8,669**	-	-	-	-	**-**	**8,669**
6	**Total - Conventional**	**3,080,460**	**-**	**-**	**-**	**-**	**696**	**3,081,156**
	Islamic							
7	Murabaha Receivables	**18,823**	-	-	-	-	-	**18823**
8	Mudaraba Financing	**9,437**	-	-	-	-	-	**9437**
9	Ijarah Assets	**63,814**	-	-	-	-	-	**63814**
10	Wakala Financing	**76,229**	-	-	-	-	-	**76229**
11	Diminishing Musharaka Financing	**397,193**	-	-	-	-	-	**397193**
12	Total - Islamic	**565,496**	-	-	-	-	-	**565,496**
13	**Total - Consolidated**	**3,645,956**	**-**	**-**	**-**	**-**	**696**	**3,646,652**

Overdrafts and others includes in Personal loans and others

*excluding countries included in column 2

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

3) Industry or counterparty type distribution of exposures broken down by major types of credit exposures:

S. NO.	Economic Sector	Overdraft RO'000	Loans & Financing RO'000	Bills purchased RO'000	Others RO'000	Total RO'000	Off balance sheet exposure RO'000
1	Import trade	11,225	102,466	1,232	11,541	126,464	26,698
2	Export trade	1,349	8,003	-	9	9,361	5,347
3	Wholesale/retail trade	5,369	100,912	212	3,125	109,618	26,107
4	Mining and quarrying	1,842	92,178	-	15	94,035	811
5	Construction	43,923	356,353	16,649	40,436	457,361	210,681
6	Manufacturing	20,356	165,989	3,048	33,062	222,455	38,589
7	Electricity, gas, and water	1,172	181,399	1,407	217	184,195	16,307
8	Transport and Communication	7,955	99,618	100	1	107,674	8,715
9	Financial institutions	1,255	217,997	1,291	967	221,510	235,323
10	Services	7,303	357,814	1,280	3,024	369,421	29,034
11	Personal loans	1,326	1,262,540	-	6,332	1,270,198	1,343
12	Agriculture and allied Activities	3,445	9,916	-	6,395	19,756	1,117
13	Government	-	134,750	-	5	134,755	-
14	Non-resident lending	-	-	-	426	426	-
15	Others	17,030	296,366	5,844	183	319,423	62,676
	Total (1 to 15)	**123,550**	**3,386,301**	**31,063**	**105,738**	**3,646,652**	**662,748**

BankDhofar S.A.O.G
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

4) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

S. NO.	Time Band	Overdraft RO'000	Loans & Financing RO'000	Bills purchased/ Discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exp. RO'000
1	Upto 1 month	6,198	32,124	-	209	**38,531**	5,513
2	1 - 3 months	6,198	157,935	-	66	**164,199**	23,884
3	3 - 6 months	6,198	81,937	-	2,808	**90,943**	34,616
4	6 - 9 months	6,198	11,467	-	3,207	**20,872**	29,468
5	9 - 12 months	6,199	18,220	-	2,193	**26,612**	14,094
6	1 - 3 years	30,853	209,280	-	27,197	**267,330**	73,293
7	3 – 5 years	30,853	112,203	222	13,329	**156,607**	129,501
8	Over 5 years	30,853	2,763,135	30841	56,729	**2,881,558**	352,379
	TOTAL	**123,550**	**3,386,301**	**31,063**	**105,738**	**3,646,652**	**662,748**

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

5) **Analysis of loan & financing book by major industry or counterparty type:**

S. NO.	Economic Sector	Performing loans RO'000	Non-performing loans RO'000	Expected Credit Loss for Stage 1 & 2 Exposure RO'000	Expected Credit Loss for Stage 3 Exposure RO'000	Interest reserve RO'000	Expected Credit Loss during the year RO'000	Advances written off during the year RO'000
1	Import trade	117,222	9,242	1,774	2,852	1,756	597	3
2	Export trade	9,196	165	148	51	15	102	-
3	Wholesale/ retail trade	98,862	10,755	4,611	4,978	2,453	1,863	4
4	Mining and quarrying	89,283	4,751	706	2,152	342	(296)	-
5	Construction	352,721	105,190	8,798	49,135	18,147	12,196	-
6	Manufacturing	219,415	5,137	3,916	1,957	377	1,506	-
7	Electricity, gas, and water	256,011	-	438	-	-	(604)	-
8	Transport and communication	107,356	318	704	161	97	(26)	-
9	Financial institutions	220,274	1	2,794	-	-	1,906	-
10	Services	367,750	1,893	14,787	734	672	5,743	14
11	Personal loans	1,200,941	71,268	8,815	38,522	15,164	3,397	-
12	Agriculture and allied activities	19,663	93	78	25	7	(33)	546
13	Government	134,755	-	17,040	-	-	7,625	65
14	Non-resident lending	696	-	-	-	-	-	-
15	Others	238,428	5,266	10,265	360	1,336	(711)	234
	TOTAL (1 to 15)	**3,432,573**	**214,079**	**74,874**	**100,927**	**40,366**	**33,265**	**866**

BankDhofar S.A.O.G
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

6) **Geographical distribution of amount of impaired loans:**

S. NO.	Countries	Exposure to Stage 1 & 2 RO'000	Exposure to Stage 3 RO'000	Stage 1 & 2 ECL RO'000	Stage 3 ECL RO'000	Interest reserve RO'000	ECL made during the year RO'000	Advances written off during the year RO'000
1	Oman	**3,431,877**	**214,079**	**74,874**	**100,927**	**40,366**	**33,265**	**866**
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries*	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	**696**	-	-	-	-	-	-
7	**TOTAL**	**3,432,573**	**214,079**	**74,874**	**100,927**	**40,366**	**33,265**	**866**

*excluding countries included in row 2

7) **Movement of Gross Loans/Financing:**

		Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	2,608,025	726,144	179,653	3,513,822
2	Migration/changes (+/-)	(57,356)	31,174	26,182	-
3	New Loans	1,235,970	453,795	12,241	1,702,006
4	Recovery from Loans	1,129,610	435,569	3,997	1,569,176
5	Loans written off	-	-	-	-
6	**Closing Balance**	**2,657,029**	**775,544**	**214,079**	**3,646,652**
7	Total Provisions	15,724	66,108	102,179	184,011

3.4.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach:

1) The Bank has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. Similar convention has been applied for Maisarah as well.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach: (Continued)

2) The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is RO 213.577 million. All other credit exposures of Corporate and Retail are assigned 100% risk weight (except mortgage loans, where valuation of the mortgaged house property is not older than 3 years, are assigned 35% risk weight, 75% for Retail borrower other than mortgage loan and 75% for SME borrowers).

Quantitative Disclosure

The total exposure after risk mitigation subject to Standardized Approach as at 31 December 2022 is as follows:

Sl. No.	Risk bucket	0% RO' 000	1% RO' 000	5% RO' 000	20% RO' 000	35% RO' 000	50% RO' 000	75% RO' 000	100% RO' 000	150% RO' 000	300% RO' 000	Total RO' 000
1	Sovereigns (Rated)	575,260	-	-	-	-	-	-	-	-	-	575,260
2	Banks (Rated)	-	-	-	56,478	-	66,233	-	24,995	48	-	147,754
3	Corporate	209,501	-	-	-	-	-	61,226	-	-	9,321	280,048
4	SME	-	-	-	-	-	-	-	1,921,049	-	116	1,921,165
5	Retail	4,076	-	-	-	-	-	661,483	-	-	-	665,559
6	Claims secured by residential property	-	-	-	-	500,030	-	-	35,088	-	-	535,118
7	Claims secured by commercial property	-	-	-	-	-	-	-	218,869	-	-	218,869
8	Past due loans	-	-	-	-	-	-	-	214,079	-	-	214,079
9	Other assets	-	-	-	-	-	-	-	143,608	-	-	143,608
10	Un-drawn exposure	-	-	-	-	827	-	434	133,752	-	1,218	136,231
11	Derivative	-	794,535	28,875	-	-	-	-	1,818	-	-	825,228
12	Non funded-Bank	-	-	-	-	-	-	-	120,801	-	-	120,801
13	Non funded-Customers	-	-	-	10,256	-	177,391	1,781	80,991	-	-	270,419
14	Non funded-Sovereign	100	-	-	-	-	-	-	-	-	-	100
	Total	**788,937**	**794,535**	**28,875**	**66,734**	**500,857**	**243,624**	**724,924**	**2,895,049**	**48**	**10,655**	**6,054,240**

3) The Bank also conducts stress tests on portfolio basis at regular intervals to assess the impact of movement in the staging on its profitability and capital adequacy. The same is placed before the Board Risk Committee.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)

3.4.3 Credit Risk Mitigation (CRM): Disclosures for Standardized approaches:

The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties, shares listed on the Muscat Securities Market (MSM), government bonds, unlisted shares and Bank fixed deposits. However, the Bank's predominant form of eligible collateral as defined by CBO in its guidelines and for capital adequacy computation purposes is in the form of cash, acceptable Bank guarantees and shares listed on the MSM main index.

The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Borrower and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing loan grades (including special mention) and 3 non-performing loan grades. The rating grade indicates the default probability of the borrower's obligation. The Bank has also implemented the facility rating system based on Basel II foundation approach which considers the collateral support, seniority and other structural aspects of the facilities provided.

Bank has also implemented model on Risk Adjusted Return on Capital (RAROC) for conventional banking, which provides the risk based pricing, which refers to a process of identifying risks, understanding them and subsequently pricing them appropriately. It is an important aspect of prudent credit risk management and is essential for maintaining financial discipline while giving loans. It helps in not only identifying, but also understanding the risk and pricing it appropriately. The RAROC system provides a competitive edge to the Bank in improving the quality of the portfolio and also covers the cost of doing business in the form of pricing.

The Bank has strengthened its existing credit risk management systems and is committed to improve it further.

3.4.4 Counterparty Credit Risk

Counterparty Credit Risk (CCR) is the possibility that a customer or trading counterparty will fail to fulfill contractual obligations, and such failure may result in the termination or replacement of the transaction at a loss to the Bank. Such exposures arise primarily in relation to over-the-counter (OTC) derivatives. The majority of CCR exposure is incurred in transactions designed to help our clients manage their interest rate and currency risks.

To measure RWA, Bank Dhofar uses the Current Exposure Method (CEM), which is the sum of current credit exposure (CCE) and the potential future exposure (PFE). The CCE is the sum of net positive fair values and the PFE is an estimate of the maximum amount of the exposure that could occur over a one year horizon. Bank Dhofar has a total notional amount of RO 56.88 million in OTC derivatives (such as interest rate swap) and risk weighted assets of RO 1.818 million as at 31 Dec 2022.

3.4.5 Market Risk:

Market Risk is the risk to the Bank's earnings and capital due to changes in the interest rates, profit rates or prices of securities, foreign exchange and equities. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into interest rate risk, profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

Bank has a comprehensive Asset Liability Management (ALM) Policy for conventional entity and Islamic banking and Investment Management Policy for conventional banking which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per Standardized approach of Basel II.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.5 Market Risk: (Continued)

Details of various market risks faced by the Bank are set out below:

1) Interest Rate Risk (IRR):

Interest rate risk is the risk where changes in market interest rates might adversely affect a Bank's financial condition. The immediate impact (up to one year) of changes in interest rates is on the Net Interest Income (NII) and a long term impact (more than one year) of changing interest rates is on the Bank's networth.

The responsibility of interest rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Bank periodically computes the IRR on the Banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. The impact of IRR on the earnings of the Bank is computed and placed to ALCO on monthly basis. An internal limit has been set up to monitor the impact of Interest rate risk on NII. Similarly, Bank has developed a model to assess the impact of IRR on the Bank's net worth based on duration gap analysis method and an internal limit has also been fixed for the same.

Details relating to re-pricing mismatches and the interest rate risk thereon is monitored by ALCO on periodic basis. In addition, scenario analysis assuming a 200 basis point parallel shift in interest rates and its impact on the interest income and net profit of the Bank are assessed on a quarterly basis and placed to Board Risk Committee with proposals for corrective action if necessary.

Impact on earnings and economic value of equity due to adverse movement of 100 bps and 200 bps in interest rate in consolidated banking is provided as under:

(RO in 000's)

Position as at 31.12.2022 Impact on	+ or – 1%	+ or – 2%
Earnings	8,196	16,393
Economic Value of Equity	47,003	94,006
Impact on earning as a % of NII	8.14%	16.29%
Impact as a % of Bank's Net worth	6.81%	13.62%

2) Profit Rate Risk (PRR):

Profit rate risk is the risk that Maisarah will incur a financial loss as a result of mismatch in the Profit rates on assets & Investment Account Holder (IAH). The profit distribution to IAH is based on Profit Sharing Agreements. Therefore, Maisarah is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when Maisarah result does not allow it to distribute profits in line with the market rates.

Maisarah has a 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 Bank's Asset and Liability Management Committee (ALCO). Maisarah periodically computes the PRR on the Banking book.

3) Foreign Exchange Risk:

Foreign Exchange Risk maybe defined as the risk that a Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.5 Market Risk: (Continued)

The responsibility of management of foreign exchange risk rests with the Treasury department. The Bank has set up internal limit to monitor foreign exchange open positions. Most of the foreign exchange transactions are conducted for corporate customers and mostly are on back to back basis. Bank has also defined various limits for foreign currency borrowing and lending.

The Bank also conducts stress tests to assess the impact of foreign exchange risk on capital adequacy and the same is placed to Board Risk Committee on regular basis.

4) Commodity Risk

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

5) Equity Position Risk:

Equity Position risk occurs due to change in the market value of the Bank's portfolio as a result of diminution in the market value of the equity securities. The responsibility of management of equity position risk rests with the Investment Management Department of the Bank. The Bank does not hold trading position in equities in conventional banking and does not hold any position in equities in Maisarah. The Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve. The Bank also conducts regular stress test on equity position risk and assesses its impact on profitability and capital adequacy.

Bank has introduced the Value at Risk (VaR) method in conventional banking for the domestic quoted equity portfolio. Out of total quoted equity portfolio of OMR 4.06 million as on 31.12.2022, VaR works out to OMR 503K at 99% confidence level and 12.37% of the domestic quoted equity portfolio.

6) The Capital Charges:

The capital charge for the entire market risk exposure is computed as per the standardized approach using the duration method and in accordance with the guidelines issued by CBO in its circular BM 1009. The Bank adopts duration method in measuring interest rate risk in respect of debt securities held in trading book. The Bank does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. Foreign exchange risk capital charge is computed on the three month average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank. The capital charge for various components of market risk is presented below:

Type of risk	RO'000 Amount
Interest Rate Risk	57
Equity Position Risk	-
Commodities Position risk	-
Foreign Exchange position risk	5,634
TOTAL	**5,692**

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)

3.4.6 Liquidity Risk

Liquidity risk is the potential inability to meet the liabilities as they become due. It arises when the banks are 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 ALM Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The ALM policy also incorporates contingency funding plans and measures, so as to be 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 off in sizeable amount etc.

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 above five years. The mismatches in various time buckets indicate liquidity gap and the Bank strictly adheres to the CBO set limit 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 stored in the balance sheet.

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 makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provides the liquidity gap positions to Treasury Department to manage it.

Middle office also undertakes regular stress test that provides the requirement of liquidity over a given time horizon.

The Bank has reconciled the statement of Maturity of Assets and Liabilities with the discussions under IFRS (Refer item no. 32 of the notes to financial statements).

3.4.7 Operational Risk:

Basel Committee on Banking Supervision has defined operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, punitive damages resulting from supervisory actions, as well as private settlements.

Bank has a well-defined Operational Risk Management (ORM) policy which inter-alia includes Operational Risk Events, Operational Risk losses and ORM process. Business and Functional units are primarily responsible for taking and managing Operational Risk on a day-to-day basis. Risk Management Division provides guidance and assistance in the identification of risk and in the ongoing operational risk management process. Bank has set up Operational Risk Management Unit to identify, manage, measure, monitor, mitigate and report operational risks.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires the Bank to provide 15% of the average gross income for the last three years as capital charge for operational risk.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.7 Operational Risk: (Continued)

Bank uses various operational risk tools like loss data management (LDM), Key Risk Indicators (KRI), Risk Control and Self-Assessment (RCSA) for effective operational risk management. The system of collecting and collating data on operational risk events has been improved further to build a strong loss data base and to improve control effectiveness. The loss data are being captured using Operational Risk Management System and complete history of the loss data is maintained.

Bank undertakes Risk Control and Self-Assessment exercise by which the inherent risk in various processes of each business unit is identified and control against these risks are assessed for their design and effectiveness. The residual risk (i.e. inherent risk after controls) provides the potential loss amount and based on residual risk, the controls are improved further.

Bank is also identifying and monitoring the Key Risk Indicators (KRIs) for each business unit. Each KRI has a defined threshold limit and an escalation criterion is also attached to it. A breach in threshold of the KRI escalates the risk to the higher authority. All the Operational Risk Management tools are configured in Operational Risk Management System.

4. Liquidity Standards:

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio and net stable funding ratio to CBO with effect from March 2014.

4.1 Liquidity Coverage Ratio (LCR):

This ratio aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. The ratio is calculated as follows:

LCR = Stock of High Quality Liquid Assets / Total Net Cash Outflows over the next 30 calendar days

As per guidelines, the value of the LCR should be minimum 100% on an ongoing basis with effect from 01 January 2019. The Bank is meeting the regulatory limit of LCR as at 31st December 2022 on consolidated basis.

4.2 Net Stable Funding Ratio (NSFR):

The net stable funding ratio is designed to ensure that banks rely more on long term funding and they maintain a sound funding structure over a horizon of one year to withstand Bank specific stress events. The ratio aims to reduce over-reliance on short term funding to create long term assets, especially during times of volatile liquidity conditions. The ratio is calculated as follows

Net Stable Funding Ratio = Available Stable Funding (ASF) / Required Stable Funding (RSF) *100

In terms of CBO guidelines, the standard for NSFR has become effective from 1st January 2018, with a minimum ratio of 100%. Presently, the Bank is meeting the regulatory limit of NSFR as at 31st December 2022.

5. Basel III Leverage Ratio

As per CBO guidelines on Leverage Ratio standards, Bank is expected to maintain a leverage ratio of 4.5%. The leverage ratio standard is not applicable to Islamic Banking Window. The Bank's leverage ratio, calculated in accordance with the CBO guidelines for the consolidated entity is as follows:

(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

(Please refer to paragraph 52 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	As at 31st December 2022	As at 31st December 2021
1	Total consolidated assets as per published financial statements	**4,317,332**	4,438,786
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	**-**	-
4	Adjustments for derivative financial instruments	**12,161**	9,962
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	**-**	-
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	**308,370**	346,932
7	Other adjustments	**-**	-
8	Leverage ratio exposure	**4,637,863**	4,622,897

BankDhofar S.A.O.G
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

5. Basel III Leverage Ratio (Continued)

Table 2: Leverage ratio common disclosure template

(Please refer to paragraph 53 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	As at 31st December 2022	As at 31st December 2021
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**4,317,332**	4,438,786
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	**-**	-
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**4,317,332**	4,438,786
	Derivative Exposures		
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	**-**	-
5	Add-on amounts for PFE associated with all derivatives transactions	**12,161**	9,962
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	**-**	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**-**	-
8	(Exempted CCP leg of client-cleared trade exposures)	**-**	-
9	Adjusted effective notional amount of written credit derivatives	**-**	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**-**	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**12,161**	9,962
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**-**	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	-
14	CCR exposure for SFT assets	**-**	-
15	Agent transaction exposures	**-**	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**	-
	Other Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**662,748**	569,225
18	(Adjustments for conversion to credit equivalent amounts)	**(354,378)**	(272,269)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**308,370**	296,956
	Capital and total exposures		
20	**Tier 1 capital**	**680,103**	674,200
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**4,637,863**	4,745,704
	Leverage Ratio		
22	**Basel III leverage ratio (%)**	**14.2**	14.3

With reference to CBO BSD/CB/2020/005 the Bank 's leverage ratio (14.2%) without add-back of the incremental Stage 2 ECL is 14.2%

Basel III Capital Disclosure Template 31/12/2022

	Basel III common disclosure template to be used during the transition of regulatory adjustments (RO '000)		Amount Subject to Pre-Basel III treatment
Common Equity Tier 1 Capital: Instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	395,291	-
2	Retained Earnings	57,111	-
3	Accumulated other comprehensive income (and other reserves)	84,943	-
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
	Public Sector capital injections grandfathered until 1 January 2018	-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	-	-
6	**Common Equity Tier 1 Capital before regulatory adjustments**	537,345	-
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments	6,615	-
8	Goodwill (net of related tax liability)*	-	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)*	-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	6,127	-
11	Cash Flow hedge reserve	-	-
12	Shortfall of provisions to expected loss	-	-
13	Securitization gain on sale (as set out in para 14.9 of CP-1)	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-
15	Defined benefit pension fund net assets	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross holdings in common equity	-	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments (RO '000)		Amount Subject to Pre-Basel III treatment
20	Mortgage servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold)	-	-
23	of which: significant investments in the common stock of financials	-	-
24	of which: mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-
26	National specific regulatory adjustments	-	-
	Regulatory adjustments applied to common equity Tier 1 in respect of amount subject to pre-basel III treatment	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
27	Regulatory adjustments applied to common equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-
28	**Total regulatory adjustments to common equity Tier 1**	12,742	-
29	**Common Equity Tier 1 capital (CET 1)**	524,603	-
Additional Tier 1 Capital: Instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	155,500	-
31	of which: classified as equity under applicable accounting standards	155,500	-
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
34	Additional Tier 1 instruments (and CET 1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT 1)	-	-
35	of which: instruments issued by subsidiaries subject to phase out	-	-
36	**Additional Tier 1 capital before regulatory adjustments**	155,500	-
Additional Tier 1 Capital: Regulatory Adjustments			
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross holdings in Additional Tier 1 instruments	-	-

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments (RO '000)		Amount Subject to Pre-Basel III treatment
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments	-	-
	Regulatory adjustments applied to Additional Tier 1 in respect of amount subject to pre-basel III treatment	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43	**Total regulatory adjustments to Additional Tier 1**	-	-
44	**Additional Tier 1 capital (CET 1)**	155,500	-
45	**Tier 1 capital (T1 = CET 1 + AT 1)**	680,103	-
Tier 2 capital: Instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
47	Directly issued capital instruments subject to phase out from Tier 2	-	-
48	Tier 2 instruments (and CET 1 and AT 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
49	of which: instruments issued by subsidiaries subject to phase out	-	-
50	Provisions and Cumulative fair value gains on available for sale instruments	35,232	-
51	**Tier 2 capital before regulatory adjustments**	35,232	-
Tier 2 capital: Regulatory Adjustments			
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross holdings in Tier 2 instruments	-	-

BankDhofar S.A.O.G
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments (RO '000)		Amount Subject to Pre-Basel III treatment
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
55	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56	National specific regulatory adjustments	-	-
	Regulatory adjustments applied to Tier 2 in respect of amount subject to pre-basel III treatment	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
57	**Total Regulatory Adjustments to Tier 2 capital**	-	-
58	**Tier 2 Capital (T 2)**	35,232	-
59	**Total Capital (TC = T 1 + T 2)**	715,335	-
	Risk Weighted Assets in respect of amounts subject to pre-Basel III treatment	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
60	**Total Risk Weighted Assets (60a + 60b + 60c)**	4,063,153	-
60a	of which: Credit Risk Weighted Assets	3,744,350	-
60b	of which: Market Risk Weighted Assets	70,428	-
60c	of which: Operational Risk Weighted Assets	248,375	-
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.91%	-
62	Tier 1 (as a percentage of risk weighted assets)	16.74%	-
63	Total capital (as a percentage of risk weighted assets)	17.61%	-
64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/ D-SIB buffer requirements expressed as a percentage of risk weighted assets)	8.25%	-
65	of which: capital conservation buffer requirement	1.25%	-

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
66	of which: bank specific countercyclical buffer requirement	0.00%	-
67	of which: D-SIB/ G-SIB buffer requirements	0.00%	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	4.64%	-
National Minima (if different from Basel III)			
69	National common equity Tier 1 minimum ratio (if different from Basel III minimum)	NA	-
70	National Tier 1 minimum ratio (if different from Basel III minimum)	NA	-
71	National total capital minimum ratio (if different from Basel III minimum)	NA	-
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	-
73	Significant investments in the common stock of financials	-	-
74	Mortgage servicing rights (net of related tax liability)	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	35,232	-
77	Cap on inclusion of provisions in Tier 2 under standardized approach	46,804	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings based approach (prior to application of cap)	-	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings based approach	-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET 1 instruments subject to phase out arrangements	NA	-
81	Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	NA	-
82	Current cap on AT 1 instruments subject to phase out arrangements	NA	-
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	NA	-
84	Current cap on T 2 instruments subject to phase out arrangements	NA	-
85	Amount excluded from T 2 due to cap (excess over cap after redemptions and maturities)	NA	-

	CA Report 1 (For CBO Use only)	RO ' 000
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	537,345
2	Regulatory Adjustments to CET1	12,742
3	CET1	524,603
4	Additional Tier 1 Capital (AT1) before Regulatory Adjustments	155,500
5	Regulatory Adjustments to AT1	-
6	AT1	155,500
7	Tier 1 Capital (7=3+6)	680,103
8	Tier 2 Capital before Regulatory Adjustments	35,232
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	35,232
11	Total Capital (11=7+10)	715,335
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	4,063,153
13	Credit Risk Weighted Assets	3,744,350
14	Market Risk Weighted Assets	70,428
15	Operational Risk Weighted Assets	248,375
16	CET1 (as a percentage of TRWA) (in %) 8.25%	12.91%
17	Tier 1 (as a percentage of TRWA) (in %) 10.25%	16.74%
18	Total capital (as a percentage of TRWA) (in %) 12.25%	17.61%

Consolidated Conventional and Maisarah Islamic Banking

	BankDhofar SAOG Details	31st December-2022 Amount RO ' 000
1	Common Equity Tier 1 capital (CET 1)	524,603
2	Tier I Capital (after supervisory deductions)	680,103
3	Tier II capital (after supervisory deductions & upto eligible limits)	35,232
4	Tier III Capital (upto a limit where Tier II & Tier III does not exceed Tier I)	-
5	Of which, Total Eligible Tier III Capital	-
6	**Risk Weighted Assets – Banking Book**	3,744,350
7	**Risk Weighted Assets – Operational Risk**	**248,375**
8	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**3,992,725**
9	Minimum required capital to support RWAs of banking book & operational risk	**439,200**
	1) Minimum required Tier I Capital for banking book & operational risk	403,968
	2) Tier II Capital required for banking book & operational risk	35,232
10	Tier I capital available for supporting Trading Book	276,135
11	Tier II capital available for supporting Trading Book	-
12	**Risk Weighted Assets – Trading Book**	**70,428**
13	Total capital required to support Trading Book	7,747
14	Minimum Tier I capital required for supporting Trading Book	2,208
15	Used Eligible Tier III Capital	-
16	Total Regulatory Capital	715,335
17	Total Risk Weighted Assets – Whole bank	4,063,153
18	Common Equity Tier 1 Ratio	**12.91%**
19	Tier 1 Ratio	**16.74%**
20	Total Capital Adequacy Ratio	**17.61%**
21	Unused but eligible Tier III Capital	**-**
22	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	**4.66%**

BankDhofar S.A.O.G
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

Statement IIa

The components used in the definition of capital disclosure template are provided below:

Table 2b: Reconciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End	As at Period End	
Assets			
Cash & Balances with CBO	176,617	-	-
Balances with bank and money at call and short notice	148,353	-	-
Investments:	469,422	-	-
Of which Held to Maturity	-	-	-
Out of investments in Held to Matiruty:	-	-	-
Investments in Subsidiaries	-	-	-
Investments in Associates & Joint Ventures	-	-	-
Of which Available for Sale	-	-	-
Out of investments in Available for Sale:	-	-	-
Investments in Subsidiaries	-	-	-
Investments in Associates & Joint Ventures	-	-	-
Of which Held for Trading	-	-	-
Loans & Advances - Conventional	2,880,469	-	-
Of which,	-	-	-
Loans & Advances to domestic banks	-	-	-
Loans & Advances to Non Resident Banks	-	-	-
Loans & Advances to domestic customers	-	-	-
Loans & Advances to Non Resident Customers for domestic operations	-	-	-
Loans & Advances to Non Resident Customers for operations abroad	-	-	-
Loans & Advances to SMEs	-	-	-
Financing from Islamic Banking Window	550,017	-	-

Statement IIa (Continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End	As at Period End	
Fixed Assets	7,854	-	-
Other Asset	67,181	-	-
Of which,	-	-	-
Goodwill & Intangible Assets	-	-	a
Out of which	-	-	-
Goodwill	-	-	-
Other Intangibles (excluding MSRs)	11,292	-	-
Deferred Tax Assets	6,127	-	-
Goodwill on Consolidation	-	-	-
Debit balance in Profit & Loss Account	-	-	-
Total Assets	4,317,332		-
Capital & Liabilities			
Paid up capital	455,135	-	-
of which:	-	-	-
Amount eligible for CET 1	299,635	-	h
Amount eligible for AT1	155,500	-	i
Reserves & Surplus	261,942	-	j
Share Premium	95,656	-	k
Legal Reserve & Special Reserve	84,943	-	l
Special reserve – restructured loans	1,281	-	-
Subordinated loan reserve	-	-	m
Special reserve Impairment Ifrs9	12,184	-	-
Special revaluation reserve investment Ifrs9	(709)	-	-

BankDhofar S.A.O.G
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

Statement IIa (Continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End	As at Period End	
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I)	(3,506)	(6,615)	n
Retained Earnings ((The proposed dividend payment amount is excluded from retained earnings)	72,093	58,010	o
Total Capital			
Deposits			
Of which,	-	-	-
Deposit from Banks	572,842	-	-
Customer Deposits	2,416,687	-	-
Deposit of Islamic Banking Window	475,132	-	-
Other deposits (pl specify)	-	-	-
Borrowings	-	-	-
Of which,	-	-	-
From CBO	-	-	-
From Banks	-	-	-
Borrowings in the form of bonds, debentures & Sukuks	-	-	-
Others (Plz specify) (Subordinated Loans)	-	-	-
Other liabilities & provisions	135,594	-	-
Of which,	-	-	-
DTLs related to goodwill	-	-	-
DTLs related to intangible assets	-	-	-
Total Liabilities	4,317,332.00	-	-

Statement IIB

The components mentioned in above table are mapped to the composition of capital disclosure template, which is provided below:

Table 2c: Common Equity Tier 1 capital: instruments and reserves			
		Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	299,635	h
2	Retained earnings	57,111	-
3	Accumulated other comprehensive income (and other reserves)	180,599	k,l,m,o
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	Common Equity Tier 1 capital before regulatory adjustments	537,345	-
7	Prudential valuation adjustments	6,615	n
8	Goodwill (net of related tax liability)	-	a
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)*	-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	6,127	-

BankDhofar S.A.O.G
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

Annexure III

Main features template for capital instruments

Bank has three types of capital instruments viz., Common Equity Shares, Additional Tier 1 Perpetual bonds and Subordinated Debt. The minimum level of summary disclosure for these regulatory capital instrument issued by the Bank is presented as under:

Common Shares

Disclosure for Main Features of regulatory capital instruments – Common Shares		
1	Issuer	Bank Dhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	OM0000002549
3	Governing law(s) of the instrument	law of Sultanate of Oman
	Regulatory Treatment	
4	Transitional Basel III rules	Common Equity Tier I
5	Post-transitional Basel III rules	Common Equity Tier I
6	Eligible at solo/ group/ group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	299.635
9	Par Value of Instrument	0.1
10	Accounting Classification	Shareholder's equity
11	Original date of issuance	Common shares have been announced many times. The change in position of common shares during the year has been provided in point 18 of notes to accounts.
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable

Annexure III (Continued)

Disclosure for Main Features of regulatory capital instruments – Common Shares		
Coupons / Dividends		
17	Fixed or floating dividend coupon	No coupon
18	Coupon rate & any related index	Not applicable
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Non viability
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Fully subordinated (Subordinated debt are senior to ordinary shares)
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

Subordinated Loan 1

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
1	Issuer	Bank Dhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	OM0000007548
3	Governing law(s) of the instrument	The Capital Securities (except for Condition on Subordination of the Capital Securities) and any non-contractual obligations arising out of or in connection with the Capital Securities will be governed by the Oman law.
	Regulatory Treatment	
4	Transitional Basel III rules	Additional Tier I
5	Post-transitional Basel III rules	Additional Tier I
6	Eligible at solo/ group/ group & solo	Group & Solo
7	Instrument type (types to be specified by each jurisdiction)	Perpetual Tier I Capital Securities
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	OMR 40 Mn
9	Par Value of Instrument	OMR 40 Mn
10	Accounting Classification	Equity
11	Original date of issuance	27-Dec-18
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on 27 Dec 2023 or on any interest payment date thereafter subject to the prior consent of the regulatory authority and after giving suitable notice
16	Subsequent call dates, if applicable	Any interest payment date occurring after 27 Dec 2023, means each 27 June and 27 December thereafter, at the option of the Bank.

Subordinated Loan 1 (Continued)

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
Coupons / Dividends		
17	Fixed or floating dividend coupon	Floating
18	Coupon rate & any related index	The Bonds shall bear interest from (and including) the Issue Date to (but excluding) the First Call Date at a rate of 7.5% per annum (Initial Interest Rate) on the outstanding principal amount of the Bonds. The Bonds shall bear interest from each Reset Date to the next Reset Date at the then Relevant 5 Year Reset Rate. Reset date is the First Call Date and every fifth anniversary thereafter.
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertibel into	Not applicable
29	If convertibe, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes

Subordinated Loan 1 (Continued)

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
31	If Write down, write down triggers	Write down will take place in case of a non-viability event that means: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank has determined that the Bank will become non-viable without a write-down; or (b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the Bank will become non-viable.
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior to ordinary shares and subordinate to Tier II instruments like Subordinated Debt
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

Subordinated Loan 2

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
1	Issuer	Bank Dhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	OM0000008850
3	Governing law(s) of the instrument	The Capital Securities (except for Condition on Subordination of the Capital Securities) and any non-contractual obligations arising out of or in connection with the Capital Securities will be governed by the Oman law.
	Regulatory Treatment	
4	Transitional Basel III rules	Additional Tier I
5	Post-transitional Basel III rules	Additional Tier I
6	Eligible at solo/ group/ group & solo	Group & Solo
7	Instrument type (types to be specified by each jurisdiction)	Perpetual Tier I Capital Securities
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	OMR 115.5 Mn
9	Par Value of Instrument	OMR 115.5 Mn
10	Accounting Classification	Equity
11	Original date of issuance	5-Oct-2022
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
Coupons / Dividends		
17	Fixed or floating dividend coupon	Fixed
18	Coupon rate & any related index	Not applicable
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary

Subordinated Loan 2 (Continued)

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Write down will take place in case of a non-viability event that means: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank has determined that the Bank will become non-viable without a write-down; or (b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the Bank will become non-viable.
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior to ordinary shares and subordinate to Tier II instruments like Subordinated Debt
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS

Liquidity Coverage Ratio:

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio (LCR) to the Central Bank of Oman (CBO) with effect from March 2013. The LCR is defined as the proportion of high quality liquid assets to total net cash outflows over the next 30 days. The high quality liquid assets include cash; reserves held with CBO; investment in CBO Certificate of Deposits, CBO Treasury Bills, Government Development Bonds; Sovereign Treasury Bills; and investment in equity listed on Muscat Securities Market. LCR is a measure of adequacy of liquid assets that will enable the Bank to survive an acute stress scenario lasting for 30 days. As per CBO guidelines, the LCR is to be maintained at a minimum of 100% from 01.01.2019. In compliance with the CBO guidelines, the Bank is meeting the regulatory limit of LCR as at 31st December 2022.

The disclosure for Liquidity Coverage Ratio for Bank Dhofar consolidated (i.e. conventional entity + Islamic Window entity) as at 31st December 2022 is as follows:

Sl. No.	BankDhofar Consolidated LCR Disclosure for the Quarter ending: Dec 20212	Total Unweighted Value (average) RO '000	Total Weighted Value (average) RO '000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)	-	481,051.57
Cash Outflows			
2	Retail deposits and deposits customers, from small business customer, of which:	614,820.41	43,735.41
3	Stable deposits	337,639.53	16,017.33
4	Less stable deposits	227,180.87	27,718.09
5	Unsecured wholesale funding, of which:	910,529.61	415,932.38
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	910,52961	415,932.38
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	557,670.80	40,359.40
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	557,670.80	40,359.40
14	Other contractual funding obligations	77,366.57	77,366.57
15	Other contingent funding obligations	546,093.67	27,304.68
16	**TOTAL CASH OUTFLOWS**	**-**	**604,698.44**
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

Sl. No.	BankDhofar Consolidated LCR Disclosure for the Quarter ending: Dec 20212	Total Unweighted Value (average) RO '000	Total Weighted Value (average) RO '000
18	Inflows from fully performing exposures	441,747.87	169,276.97
19	Other cash inflows	40,957.29	40,957.29
20	**TOTAL CASH INFLOWS**	**482,705.15**	**210,234.25**
			Total Adjusted Value
21	**TOTAL HQLA**	**-**	**487,677.41**
22	**TOTAL NET CASH OUTFLOWS**	**-**	**394,646.19**
23	**LIQUIDITY COVERAGE RATIO (%)**	**-**	**123.63**

The above disclosed values for high quality liquid assets, cash outflows and cash inflows are the arithmetic average of the values for the last four quarters.

LCR is computed on a monthly basis and year end position for LCR is 107.71% as at 31.12.2022 (123.54% as at 31.12.2021). The Bank is in compliance of the regulatory limit of LCR as at 31st December 2022, with LCR of 123.63% calculated on weighted average value for the year (2021: 154.09%).

Net Stability Funding Ratio (NSFR):

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 disclosure for Net Stability Funding Ratio for Bank Dhofar consolidated (i.e. conventional entity + Islamic Window entity) is as follows:

NSFR disclosures						**Year Ended: Dec-22**
Bannk: Dhofar (consolidated)						**(RO '000)**
		Unweighted value by residual maturity				
Sl. No.	**ASF Item**	**No maturity**	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted Value**
1	Capital:	1,579,308.17	1,579,308.17	-	-	1,579,308.17
2	Regulatory capital	713,322.59	-	-	-	713,322.59
3	Other capital instruments	865,985.58	-	-	-	865,985.58
4	Retail deposits and deposits from small business customers	716,387.04	100,259.71	54,834.88	-	800,914.18
5	Stable deposits	363,633.89	5,432.92	6,476.79	-	356,301.28

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

NSFR disclosures						Year Ended: Dec-22
Bannk: Dhofar (consolidated)						(RO '000)
		Unweighted value by residual maturity				
Sl. No.	ASF Item	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
6	Less stable deposits	352,753.15	94,826.79	48,358.09	-	444,612.91
7	Wholesale funding:	588,407.47	382,590.17	506,648.75	738,319.59	741,229.44
8	Operational deposits	5,819.69	-	-	-	2,909.85
9	Other wholesale funding	582,587.78	382,590.17	506,648.75	-	738,319.59
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	-	-	-	-
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in above categories	369,304.03	-	-	-	-
14	**Total ASF**	**-**	**-**	**-**	-	**3,121,451.80**
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	17,285.82
16	Deposits held at other financial institutions for operational purposes	22,720.01	-	-	-	11,360.01
17	Performing loans and securities:	-	189,350.84	718,075.60	2,092,017.88	2,520,838.67
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	-	3,537.19	-	1,768.59
20	Performing loans to non-financial corporate clients,loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	-	189,350.84	714,538.41	-	397,117.14

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

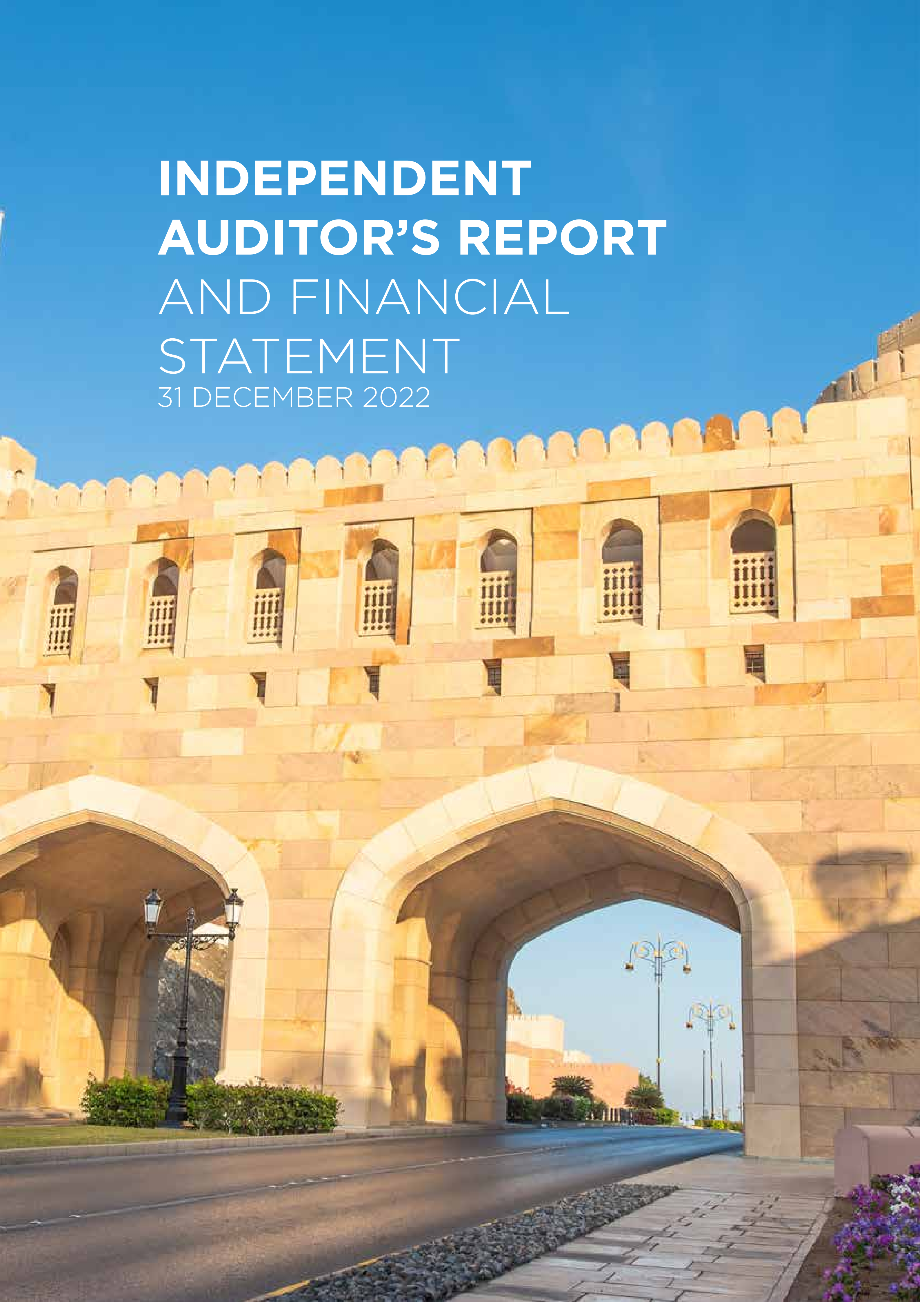
NSFR disclosures						Year Ended: Dec-22
Bannk: Dhofar (consolidated)						(RO '000)
		Unweighted value by residual maturity				
Sl. No.	ASF Item	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	-	-	2,061,118.20	1,751,950.47
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	528,827.30	343,737.75
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	30,899.68	26,264.73
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other Assets:	-	-	-	263,396.74	264,792.04
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	-	-	-	1,395.29
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	-	-	263,396.74	263,396.74
32	Off-balance sheet items	-	-	-	-	55,154.34
33	**TOTAL RSF**	**-**	**-**	**-**	**-**	**2,869,430.88**
34	**NET STABLE FUNDING RATIO (%)**	**-**	**-**	**-**	**-**	**108.78%**

The above disclosed values for required stable funding and the available stable funding are the arithmetic average of the values for the last four quarters reflecting average during the year 2022.

NSFR is computed on a monthly basis and year end position of NSFR for Bank Dhofar (consolidated entity) at 107.95% as at 31.12.2022 (109.24% as at 31.12.2021). The Bank is in compliance of the regulatory limit of NSFR as at 31st December 2022, with LCR of 108.78% calculated on weighted average value for the year (2021: 110.49%).

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENT

31 DECEMBER 2022



pwc

Independent auditor's report to the shareholders of Bank Dhofar SAOG

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank Dhofar SAOG (the "Bank") as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2022;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matter	• Measurement of expected credit losses

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290, Commercial Register No. 1230865 Tax Card No 8055889

pwc

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Our audit approach (continued)

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Key audit matter	How our audit addressed the key audit matter
Measurement of expected credit losses (ECL)	
The ECL charge for the year ended 31 December 2022 amounted to RO 34.34 million (net of recoveries) and the allowance for ECL as at that date amounted to RO 184.01 million. The Bank makes an allowance for ECL on all of its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financial commitments. The ECL provision represents the directors' best estimate of the credit losses as at the statement of financial position date. We considered the measurement of ECL as a key audit matter as the determination of ECL has a material impact on the financial statements. It also requires the directors to exercise judgement and make complex estimates that impact the size and the timing of the ECL, including: • identifying portfolios of similar financial instruments; • choosing appropriate models and assumptions for the measurement of ECL including Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD); • determining criteria for significant increase in credit risk (SICR) and therefore staging; • assessing the recoverability of Stage 3 financial assets;	We assessed the appropriateness of the methodology to calculate ECL and the adequacy of the ECL as at 31 December 2022. Our testing included: • understanding the Bank's IFRS 9 impairment provisioning policy and comparing it with the requirements of IFRS 9; • obtaining an understanding of and testing the completeness and accuracy of the historical and current data used for the ECL calculation; • obtaining an understanding of and tested the grouping of similar financial assets in the portfolios for the purposes of measuring ECL; • testing a sample of financial assets to determine the appropriateness and application of the staging criteria; • obtaining an understanding of the methodology to identify and calculate individual impairment allowance for Stage 3 exposures and testing a sample of such credit exposures against the methodology; • testing overlays to the ECL model for appropriateness; and • assessing the disclosures made by the directors in the financial statements. We carried out the above procedures in conjunction with our ECL experts who supported us on specific matters including: • testing the IFRS 9 methodology for the ECL calculation and the mathematical accuracy and logical integrity of the ECL model;

pwc

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Our audit approach (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
Measurement of expected credit losses (ECL) (continued) • establishing the number and relative weightings of forward-looking scenarios for each type of financial instrument and the associated ECL; • determining overlays to the ECL derived from the model to account for factors that may not have been fully captured by the model; and • determining disclosure requirements in accordance with accounting standards. The level of estimation uncertainty and judgement has remained high during 2022 as a result of the uncertain macroeconomic environment. This has increased the uncertainty around judgements made in determining the severity and likelihood of macroeconomic variable (MEV) forecasts across the different economic scenarios used in ECL models. In addition, the directors make judgmental adjustments to modelled outcome, the measurement of which is inherently judgemental and subject to a high level of estimation uncertainty. *Information on credit risk and the Bank's credit risk management is provided in note 32 A. Disclosure of the impairment allowance and the net impairment charge for the year is provided in note 7(f).*	• testing the reasonableness of historical macroeconomic and forward-looking information and assumptions used by the directors by agreeing to the latest available macro-economic information; • assessing the appropriateness of the PD and LGD and evaluating the reasonableness of the EAD including provisions held against a sample of Stage 3 credit exposures; and • testing and assessing the reasonableness of the Bank's use of scenarios, weightings and discounting.

Other information

The directors are responsible for the other information. The other information comprises the Board of Directors' Report; Corporate Governance Report; Management Discussion and Analysis Report; Disclosure Requirements under Pillar III of Basel II and III; Maisarah Islamic Banking Services Annual Report 2022 (comprising its financial statements, the Annual Report of Shari'a Supervisory Board, Management Discussion and Analysis Report; and Disclosure Requirements under Pillar III of Basel II and Basel III), but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report and the Bank's Annual Report and Financial Highlights of last five years and Financial Ratios of last five years, which are 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 obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

pwc

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Other information (continued)

When we read the Bank's Annual Report, Financial Highlights of the last five years and Financial Ratios of the last five years, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as they determine 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 directors are 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 they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

pwc

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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, as required by the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, we report that the financial statements have been prepared and comply, in all material respects, with those requirements and provisions.

PricewaterhouseCoopers

Mario Portelli
Muscat, Sultanate of Oman
2 March 2023

برايس وترهاوس كوبرز ش.م.م
C.R. No 1230865
PricewaterhouseCoopers LLC

Statement of Financial Position

For the year ended 31 December 2022

2022 USD'000	2021 USD'000		Note	2022 RO'000	2021 RO'000
		Assets			
458,745	653,192	Cash and balances with Central Bank of Oman	5	**176,617**	251,479
1,219,278	1,159,003	Investment securities	8	**469,422**	446,216
385,332	324,930	Loans, advances and financing to banks	6	**148,353**	125,098
7,481,738	7,417,091	Loans, advances and financing to customers (conventional)	7	**2,880,469**	2,855,580
1,428,616	1,274,397	Islamic financing receivables	7	**550,017**	490,643
174,496	638,408	Other assets	11	**67,181**	245,787
15,914	8,883	Deferred tax assets	24	**6,127**	3,420
20,400	20,252	Property and equipment	10	**7,854**	7,797
29,330	33,158	Intangible assets	9	**11,292**	12,766
11,213,849	11,529,314	**Total assets**		**4,317,332**	4,438,786
		Liabilities			
1,487,901	1,197,114	Due to banks	12	**572,842**	460,889
6,277,109	6,593,824	Deposits from customers (conventional)	13	**2,416,687**	2,538,622
1,234,109	1,135,109	Islamic customers deposits	13	**475,132**	437,017
313,829	667,429	Other liabilities	14	**120,824**	256,960
35,408	24,473	Tax Liabilities	24 (e)	**13,632**	9,422
2,956	6,122	Employee benefit obligations	14 (a)	**1,138**	2,357
-	90,909	Subordinated loans	15	**-**	35,000
9,351,312	9,714,980	**Total liabilities**		**3,600,255**	3,740,267
		Shareholder's equity			
778,273	778,273	Share capital	16 (a)	**299,635**	299,635
248,457	248,457	Share premium	17	**95,656**	95,656
176,506	167,631	Legal reserve	18 (a)	**67,955**	64,538
44,124	44,125	Special reserve	18 (d)	**16,988**	16,988
3,327	3,327	Special reserve –restructured loans	18 (e)	**1,281**	1,281
31,647	31,647	Special impairment reserve	18 (f)	**12,184**	12,184
(1,842)	(1,842)	Special revaluation reserve - investment	18 (g)	**(709)**	(709)
-	72,728	Subordinated loan reserve	18 (b)	**-**	28,000
(9,106)	(9,031)	Investment revaluation reserve	18(c)	**(3,506)**	(3,477)
187,256	75,125	Retained earnings	19	**72,093**	28,923
1,458,642	1,410,440	**Total equity attributable to the equity holders of the Bank**		**561,577**	543,019
403,896	403,896	Perpetual Tier 1 Capital Securities	16 (b)	**155,500**	155,500
1,862,538	1,814,336	**Total equity**		**717,077**	698,519
11,213,850	11,529,316	**Total liabilities and equity**		**4,317,332**	4,438,786
1,721,423	1,478,506	**Contingent liabilities and commitments**	28(a)	**662,748**	569,225
0.49	0.47	**Net assets per share (Rial Omani)**	20	**0.187**	0.181

The financial statements including notes and other explanatory information on pages 142 to 253 were approved and authorised for issue by the Board of Directors on 25 January 2023 and were signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

Abdul Hakeem Al Ojaili
Chief Executive Officer

Independent auditor's report - pages 129 to 133

Statement of Comprehensive Income

For the year ended 31 December 2022

2022 USD'000	2021 USD'000		Note	2022 RO'000	2021 RO'000
480,018	449,694	Interest income	21	**184,807**	173,132
(218,561)	(234,735)	Interest expense	22	**(84,146)**	(90,373)
261,457	214,959	**Net interest income**		**100,661**	82,759
94,706	87,242	Income from Islamic financing / Investments	21	**36,462**	33,588
(38,200)	(36,166)	Unrestricted investment account holders' share of profit and profit expense	22	**(14,707)**	(13,924)
56,506	51,076	**Net income from Islamic financing and investment activities**		**21,755**	19,664
49,883	46,509	Fees and commission income	29	**19,205**	17,906
(11,203)	(6,387)	Fees and commission expense	29	**(4,313)**	(2,459)
38,680	40,122	**Net fees and commission income**		**14,892**	15,447
15,179	22,275	Other operating income	22(a)	**5,844**	8,576
371,822	328,432	**Operating income**		**143,152**	126,446
(162,662)	(169,488)	Staff and administrative costs	23	**(62,625)**	(65,253)
(18,332)	(18,408)	Depreciation	9&10	**(7,058)**	(7,087)
(180,994)	(187,896)	**Operating expenses**		**(69,683)**	(72,340)
(89,203)	(64,029)	Net Impairment loses on financial assets	7	**(34,343)**	(24,651)
2,800	-	Recovery of bad debts written-off		**1,078**	-
104,425	76,507	**Profit from operations after provision**		**40,204**	29,455
(15,665)	(11,252)	Income tax expense	24	**(6,031)**	(4,332)
88,760	65,255	**Profit for the period**		**34,173**	25,123
		Other comprehensive income:			
		Items that will not be reclassified to P&L:			
(1,055)	636	Movement in fair value reserve (FVOCI equity instrument)		**(406)**	245
		Items that are or may be reclassified to profit or loss in subsequent periods:			
979	(3,512)	Movement in fair value reserves (FVOCI debt instruments)		**377**	(1,352)
(76)	(2,876)	Other comprehensive loss for the period		**(29)**	(1,107)
88,684	62,379	**Total comprehensive income for the period**		**34,144**	24,016
0.02	0.01	**Earnings per share attributable to equity shareholders of the Bank (basic and diluted) (Rials Omani)**	25	**0.008**	0.005

The notes on pages 142 to 253 are an integral part of these financial statements.

Independent auditor's report - pages 129 to 133

Statement of Changes in Equity

For the year ended 31 December 2022

	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 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 in fair value reserve		-	-	-	-	-	-	-	-	-	-	-	-	-
FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	(406)	-	(406)	-	(406)
FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	377	-	377	-	377
Transfer to legal reserve	18(a)	-	-	3,417	-	-	-	-	-	-	(3,417)	-	-	-
Transfer to subordinated loan 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(b)	-	-	-	-	-	-	-	-	-	-	-	(115,500)	(115,500)
Issuance of Tier 1 capital securities	16(b)	-	-	-	-	-	-	-	-	-	-	-	115,500	115,500
Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(9,376)	(9,376)	-	(9,376)
AT 1 Issuance Cost		-	-	-	-	-	-	-	-	-	(217)	(217)	-	(217)
Dividend paid	35	-	-	-	-	-	-	-	-	-	(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 142 to 253 are an integral part of these financial statements.

Independent auditor's report - pages 129 to 133

Statement of Changes in Equity

For the year ended 31 December 2022

	Notes	Share capital USD'000	Share premium USD'000	Legal reserve USD'000	Special reserve USD'000	Special reserve restructured loan USD'000	Special impairment reserve USD'000	Special revaluation reserve USD'000	Subordinated loans reserve USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000	Perpetual Tier 1 capital securities USD'000	Total equity USD'000
Balances as at 1 January 2022		778,273	248,457	167,631	44,125	3,327	31,647	(1,842)	72,727	(9,031)	75,125	1,410,439	403,896	1,814,335
Profit for the period		-	-	-	-	-	-	-	-	-	88,761	88,761	-	88,761
Other comprehensive income for the period:														
Net changes in fair value reserve		-	-	-	-	-	-	-	-	-	-	-	-	-
FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	(1,055)	-	(1,055)	-	(1,055)
FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	979	-	979	-	979
Total comprehensive income for the period		-	-	-	-	-	-	-	-	(75)	88,761	88,686	-	88,686
Transfer to legal reserve	18(a)	-	-	8,875	-	-	-	-	-	-	(8,875)	-	-	-
Transfer to subordinated loan reserve	18(b)	-	-	-	-	-	-	-	18,182	-	(18,182)	-	-	-
Transfer to Retained Earnings	18(d)	-	-	-	-	-	-	-	(90,909)	-	90,909	-	-	-
Perpetual Tier 1 capital securities:		-	-	-	-	-	-	-	-	-	-	-	-	-
Repayment of Tier 1 capital securities	16(b)	-	-	-	-	-	-	-	-	-	-	-	300,000)	(300,000)
Issuance of Tier 1 capital securities	16(b)	-	-	-	-	-	-	-	-	-	-	-	300,000	300,000
Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(24,353)	(24,353)	-	(24,353)
AT 1 Issuance Cost		-	-	-	-	-	-	-	-	-	(564)	(564)	-	(564)
Dividend paid	35	-	-	-	-	-	-	-	-	-	(15,566)	(15,566)	-	(15,566)
Balances as at 31 December 2022		778,273	248,457	176,506	44,125	3,327	31,647	(1,842)	-	(9,106)	187,255	1,458,642	403,896	1,862,538

The notes on pages 142 to 253 are an integral part of these financial statements.

Independent auditor's report - pages 129 to 133

Statement of Changes in Equity

For the year ended 31 December 2021

	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 2021		299,635	95,656	62,025	17,488	1,281	12,184	(709)	21,000	(2,370)	34,174	540,364	155,500	695,864
Profit for the period		-	-	-	-	-	-	-	-	-	25,123	25,123	-	25,123
Other comprehensive income for the period:														
Net changes in fair value reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	245	-	245	-	245
FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	(1,352)	-	(1,352)	-	(1,352)
Total comprehensive income for the period		-	-	-	-	-	-	-	-	(1,107)	25,123	24,016	-	24,016
Transfer to legal reserve	18(a)	-	-	2,513	-	-	-	-	-	-	(2,513)	-	-	-
Transfer to subordinated loan reserve	18(b)	-	-	-	-	-	-	-	7,000	-	(7,000)	-	-	-
Transfer to Retained Earnings	18(d)	-	-	-	(500)	-	-	-	-	-	500	-	-	-
Perpetual Tier 1 capital securities:														
Repayment of Tier 1 capital securities	16(b)	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of Tier 1 capital securities	16(b)	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(9,376)	(9,376)	-	(9,376)
AT 1 Issuance Cost		-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	35	-	-	-	-	-	-	-	-	-	(11,985)	(11,985)	-	(11,985)
Balances as at 31 December 2021		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

The notes on pages 142 to 253 are an integral part of these financial statements.

Independent auditor's report - pages 129 to 133

Statement of Changes in Equity

For the year ended 31 December 2021

	Notes	Share capital USD'000	Share premium USD'000	Legal reserve USD'000	Special reserve USD'000	Special reserve restructured loan USD'000	Special impairment reserve USD'000	Special revaluation reserve USD'000	Subordinated loans reserve USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000	Perpetual Tier 1 capital securities USD'000	Total equity USD'000
Balances as at 1 January 2021		778,273	248,457	161,104	45,423	3,327	31,647	(1,842)	54,545	(6,156)	88,764	1,403,543	403,896	1,807,439
Profit for the period		-	-	-	-	-	-	-	-	-	65,255	65,255	-	65,255
Other comprehensive income for the period:														
Net changes in fair value reserve		-	-	-	-	-	-	-	-	-	-	-	-	-
FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	636	-	636	-	636
FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	(3,512)	-	(3,512)	-	(3,512)
Total comprehensive income for the period		-	-	-	-	-	-	-	-	(2,875)	65,255	62,379	-	62,379
Transfer to legal reserve	18(a)	-	-	6,527	-	-	-	-	-	-	(6,527)	-	-	-
Transfer to subordinated loan reserve	18(b)	-	-	-	-	-	-	-	18,182	-	(18,182)	-	-	-
Transfer to Retained Earnings	18(d)	-	-	-	(1,299)	-	-	-	-	-	1,299	-	-	-
Perpetual Tier 1 capital securities:														
Repayment of Tier 1 capital securities	16(b)	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of Tier 1 capital securities	16(b)	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(24,353)	(24,353)	-	(24,353)
AT 1 Issuance Cost		-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	35	-	-	-	-	-	-	-	-	-	(31,130)	(31,130)	-	(31,130)
Balances as at 31 December 2021		778,273	248,457	167,631	44,125	3,327	31,647	(1,842)	72,727	(9,031)	75,125	1,410,439	403,896	1,814,335

The notes on pages 142 to 253 are an integral part of these financial statements.

Independent auditor's report - pages 129 to 133

Statement of Cash Flows
For the year ended 31 December 2022

2022 USD'000	2021 USD'000		Note	2022 RO'000	2021 RO'000
		CASH FLOWS FROM OPERATING ACTIVITIES			
104,426	76,507	Profit for the year before taxation		**40,204**	29,455
		Adjustment for:			
18,332	18,408	Depreciation, amortisation and impairment	9 &10	**7,058**	7,087
86,403	64,029	Net Impairment on financial asset and recovery of bad debts written-off	7	**33,265**	24,651
(688)	(327)	Dividend income	22(b)	**(265)**	(126)
756	1,223	End of Service provision for the year		**291**	471
299	34	Revaluation loss		**115**	13
(247)	(42)	Gain on Sale of property and equipment		**(95)**	(16)
4,948	5,683	Interest expense on subordinated loans	22	**1,905**	2,188
(34)	(5,379)	Gain on sale of investments		**(13)**	(2,071)
214,195	160,136	**Operating profit before operating assets and liabilities changes**		**82,465**	61,652
		Net increase/(decrease) in:			
286,992	23,205	Due to banks		**110,492**	8,934
80,855	(57,764)	Due from banks		**31,129**	(22,239)
(316,956)	(272,932)	Loans & advances and financing		**(122,028)**	(105,079)
441,384	(182,003)	Other assets		**169,933**	(70,071)
(242,600)	296,945	Customer deposits		**(93,401)**	114,324
(318,753)	170,787	Other liabilities		**(122,720)**	65,753
145,117	138,374	**Cash generated from operations before tax and end of service benefits**		**55,870**	53,274
(11,758)	(28,034)	Taxes paid	24	**(4,527)**	(10,793)
(3,922)	(1,914)	End of service benefits paid	14(a)	**(1,510)**	(737)
129,437	108,426	**Net cash generated from operating activities**		**49,833**	41,744
		CASH FLOWS FROM INVESTING ACTIVITIES			
(14,652)	(16,112)	Purchase of property and equipment and intangible assets		**(5,641)**	(6,203)
688	327	Dividends received from investment securities		**265**	126
(211,774)	(223,857)	Purchase of investments		**(81,533)**	(86,185)

Statement of Cash Flows
For the year ended 31 December 2022

2021 USD'000	2020 USD'000		Note	20201 RO'000	2020 RO'000
176,488	256,436	Proceeds from sale/maturities of investments		**67,948**	98,728
247	**42**	Proceeds from sale of property and equipment		**95**	16
(49,003)	16,836	**Net cash generated (used in)/ generated from investing activities**		**(18,866)**	6,482
		CASH FLOWS FROM FINANCING ACTIVITIES			
(90,909)	-	Repayment of subordinated loans		**(35,000)**	-
(15,566)	(31,130)	Dividend paid		**(5,993)**	(11,985)
300,000	-	Issuance of AT 1 securities (OMR)		**115,500**	-
(300,000)	-	Payment of AT 1 securities (USD)		**(115,500)**	-
(24,353)	(24,353)	Interest on Tier 1 perpetual bond		**(9,376)**	(9,376)
(564)	-	AT 1 issuance cost		**(217)**	-
(4,948)	(5,683)	Interest expense on subordinated loans		**(1,905)**	(2,188)
(136,340)	(61,166)	**Net cash (used in) financing activities**		**(52,491)**	(23,549)
(55,906)	64,096	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**(21,524)**	24,677
771,956	707,860	**Cash and cash equivalents at beginning of the year**		**297,203**	272,526
716,050	771,956	**Cash and cash equivalents at end of the year**		**275,679**	297,203
		Cash and cash equivalent comprise of:			
458,746	653,193	Cash and balances with Central Bank of Oman		**176,617**	251,479
(1,299)	(1,299)	Capital deposit with Central Bank of Oman		**(500)**	(500)
258,603	120,063	Due from banks with a short term maturity of 3 months or less		**99,562**	46,224
716,050	771,957			**275,679**	297,203

Interest received was RO 184.17 million (2021: RO 203.56 million) and interest paid was RO 82.99 million (2021: RO 104.94 million). These are part of the operating cash flows of the Bank.

There are no significant non-cash changes to be disclosed for 2022 and 2021.

The notes on pages 142 to 253 are an integral part of these financial statements.

Independent auditor's report - pages 129 to 133

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 (2021: 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), 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.

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 2022 and relevant for the Bank's operations:

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

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;
- Onerous Contracts – Cost of Fulfilling a Contract – Amendment to IAS 37;
- Annual Improvements to IFRS Standards 2018 – 2020;
- Reference to the Conceptual Framework – Amendments to IFRS 3;

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or 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 2022:

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current, (effective on or after 1 January 2023)
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2, (effective on or after 1 January 2023)
- Amendments to IAS 8: Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023)
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023)
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 (effective date of this pronouncement is yet to be determined)

The Bank is evaluating the impact on future financial statements, if any, of adopting these pronouncements.

Major new IFRSs or amendments

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Bank is currently assessing the impact of the new standard on its financial statements. However, based on its preliminary assessment, the Bank does not expect that the standard will have no significant effect, when applied, on the financial statements of the Bank.

2. BASIS OF PREPARATION (continued)

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 2022: (continued)

Major new IFRSs or amendments (continued)

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Bank is currently assessing the impact of the amendments on its financial statements. However, based on its preliminary assessment, the Bank does not expect that the standard will have no significant effect, when applied, on the financial statements of the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification (continued)

(a) Financial assets (continued)

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.

Financial assets measured at fair value through other comprehensive income

1) 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.

2) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification (continued)

(a) Financial assets (continued)

Business model assessment (continued)

- 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
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification (continued)

(a) Financial assets (continued)

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.

3.2.3 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.4 Modifications of financial assets and financial liabilities (continued)

Financial assets (continued)

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.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

- 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'.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

Details of these statistical parameters/inputs are as follows: (continued)

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

(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.

(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. SIGNIFICANT 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. SIGNIFICANT 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:

	Year
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. SIGNIFICANT 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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. SIGNIFICANT 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

1. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Revenue and expense recognition (continued)

1. Interest income and expense (continued)

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

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

(1) Interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and

(2) 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.

2. 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 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Revenue and expense recognition (continued)

2. 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 2021.

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

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.

4.4 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.

Notes to the financial statement
For the year ended 31 December 2022

5. Cash and balances with the Central Bank of Oman

	2022 RO'000	2021 RO'000
Cash in hand	**33,925**	29,984
Balances with the Central Bank of Oman	**68,050**	144,495
Placements with Central Bank of Oman	**69,326**	77,000
Cash held by a custodian	**5,316**	-
	176,617	251,479

Balances with CBO includes capital deposit of RO 0.5 million (2021: 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 86.720 million (2021: RO 88.970 million).

6. Loans, advances and financing to banks

At Amortised Cost

	2022 RO'000	2021 RO'000
Syndicated loans to other banks	**-**	25,749
Placements with other banks	**101,333**	73,525
Current clearing accounts	**47,124**	26,974
	148,457	126,248
Less: impairment allowance	**(104)**	(1,150)
	148,353	125,098

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

	2022 RO'000	2021 RO'000
Opening balance as on 1 January	**1,150**	454
Charge / (Write Back) for the year	**(1,046)**	696
Closing balance as on 31 December	**104**	1,150

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

	2022 RO'000	2021 RO'000
(a) Conventional Banking		
Loans	**2,820,805**	2,769,153
Overdraft	**123,550**	113,544
Loans against trust receipts	**97,069**	91,730
Bills discounted	**31,063**	29,160
Advances against credit cards	**8,669**	8,144
Gross Loans, advances and financing to customers	**3,081,156**	3,011,731
Less: Impairment allowance including reserved interest	**(200,687)**	(156,151)
	2,880,469	2,855,580

	2022 RO'000	2021 RO'000
(b) Islamic Banking Window Financing		
Housing finance	**161,971**	161,969
Corporate finance	**388,808**	326,541
Consumer finance	**14,717**	13,581
	565,496	502,091
Less: Impairment allowance	**(15,479)**	(11,448)
	550,017	490,643

Allowance for expected credit losses includes the amount of interest reserve and profit reserve RO 39.33 million and RO 1.04 million respectively (2021: RO 29.27 million and RO 0.84 million).

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

	2022 RO'000	2021 RO'000
(c) The movement in the allowance for expected credit losses is analysed below:		
1. Allowance for loan for expected credit losses (conventional and Islamic)		
1 January	**137,481**	119,568
Reclassification of ECL related to accrued interest	**343**	-
Allowance made during the year	**50,092**	34,636
Released to the profit or loss during the year	**(11,249)**	(10,294)
Written off during the year	**(866)**	(6,429)
Balance at the end of the year	**175,801**	137,481
2. Reserved interest		
1 January	**30,117**	24,719
Reserved during the year	**13,589**	11,523
Recoveries to profit or loss during the year	**(2,560)**	(2,048)
Written-off during the year	**(780)**	(4,077)
Balance at the end of the year	**40,366**	30,117
Total impairment allowance	**216,167**	167,598

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 2022, loans, and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 214.08 million (2021: RO 179.65 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 2022, the Bank has written off RO 1.65 million (2021- RO 10.51 million) of provisions which includes RO 0.87 million (2021 - RO 6.43 million) of principal amount and RO 0.78 million (2021 – RO 4.08 million) of reserved interest as technical write off. As of 31 December 2022, the receivables amount written off still subject to enforcement activity amount to RO 79.31 million (2021: RO 80.09 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 (conventional and Islamic) (continued)

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

3. 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 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	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)
Standard	Stage 1	2,642,217	37,850	12,483	25,367	2,604,367	2,629,734	-
	Stage 2	417,967	5,166	32,121	(26,956)	412,802	385,846	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		**3,060,184**	**43,016**	**44,604**	**(1,588)**	**3,017,168**	**3,015,580**	**-**
Special Mention	Stage 1	14,812	151	228	(77)	14,661	14,584	-
	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**	**-**
Substandard	Stage 1	-	-	-	-	-	-	-
	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**
Doubtful	Stage 1	-	-	-	-	-	-	-
	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**
Loss	Stage 1	-	-	-	-	-	-	-
	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**	**-**
Total (31 December 2022)	Stage 1	4,412,417	38,180	15,724	22,456	4,374,237	4,396,693	-
	Stage 2	1,080,726	10,116	66,108	(55,992)	1,070,610	1,014,618	-
	Stage 3	217,135	137,615	102,179	35,436	39,154	114,956	40,366
	Total	**5,710,278**	**185,911**	**184,011**	**1,900**	**5,484,001**	**5,526,267**	**40,366**

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

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

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

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

At 31 December 2021 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 in the YTD	Reserve interest as per CBO norms for the YTD
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	2,608,026	38,544	20,015	18,529	2,569,482	2,588,011	-	-
	Stage 2	443,462	6,034	9,157	(3,123)	437,428	434,305	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		3,051,488	44,578	29,172	15,406	3,006,910	3,022,316	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	282,681	3,993	25,774	(21,781)	278,688	256,907	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		282,681	3,993	25,774	(21,781)	278,688	256,907	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	16,073	4,571	6,669	(2,098)	11,177	9,404	-	325
Subtotal		16,073	4,571	6,669	(2,098)	11,177	9,404	-	325
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	13,321	5,613	5,086	527	6,840	8,235	-	868
Subtotal		13,321	5,613	5,086	527	6,840	8,235	-	868
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	150,259	102,242	70,780	31,462	19,093	79,479	-	28,924
Subtotal		150,259	102,242	70,780	31,462	19,093	79,479	-	28,924
Total loans and advances		3,513,822	160,997	137,481	23,516	3,322,708	3,376,341	-	30,117
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,887,346	179	7,630	(7,451)	1,887,167	1,879,716	-	-
	Stage 2	313,357	-	5,422	(5,422)	313,357	307,935	-	-
	Stage 3	7,202	-	-	-	7,202	7,202	-	-
Subtotal		2,207,905	179	13,052	(12,873)	2,207,726	2,194,853	-	-
Total (31 December 2021)	Stage 1	4,495,372	38,723	27,645	11,078	4,456,649	4,467,727	-	-
	Stage 2	1,039,500	10,027	40,353	(30,326)	1,029,473	999,147	-	-
	Stage 3	186,855	112,426	82,535	29,891	44,312	104,320	-	30,117
	Total	5,721,727	161,176	150,533	10,643	5,530,434	5,571,194	-	30,117

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

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

(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.

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	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		562,360	3,738	44,720	(40,982)	558,622	517,640	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	7,431	3,451	3,476	(25)	2,723	3,955	-	1,257
Subtotal		7,431	3,451	3,476	(25)	2,723	3,955	-	1,257
Total (31 December 2021)	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 (conventional and Islamic) (continued)

(d) Restructured Loans (continued)

At 31 December 2021 RO'000

Asset Classification as per CBO Norms 31 December 2021	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	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	57,314	565	475	90	56,749	56,839	-	-
	Stage 2	145,761	7,437	13,490	(6,053)	138,324	132,271	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		203,075	8,002	13,965	(5,963)	195,073	189,110	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	7,113	4,248	3,906	342	1,650	3,207	-	1,215
Subtotal		7,113	4,248	3,906	342	1,650	3,207	-	1,215
Total (31 December 2021)	Stage 1	57,314	565	475	90	56,749	56,839	-	-
	Stage 2	145,761	7,437	13,490	(6,053)	138,324	132,271	-	-
	Stage 3	7,113	4,248	3,906	342	1,650	3,207	-	1,215
Total		210,188	12,250	17,871	(5,621)	196,723	192,317	-	1,215

* Net of provision and reserve interest as per CBO norms

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

1. Allowance for expected credit losses charge and provisions held

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%**	**0.00%**
Net NPL ratio	**0.99%**	**2.00%**	**(1.01%)**

Gross NPL (Non-performing Loans) are 5.87% and Net NPL is 2.00% based on funded non-performing exposure over funded exposure.

Note 1: Excluding Interest Reserve of RO 40.37 million.

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

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

1. Allowance for expected credit losses charge and provisions held (continued)

At 31 December 2021

	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)	161,176	150,533	10,643
Gross NPL ratio	5.11%	5.11%	0.00%
Net NPL ratio	1.06%	1.91%	(0.85%)

Note 1: Excluding Interest Reserve of RO 30.12 million.

Gross NPL (Non-performing Loans) are 5.11% and Net NPL is 1.91% 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 2021 and 2022. During the period no reserve has been transferred to 'Impairment Reserve' as there is no additional provision required as per CBO guidelines.

2. Special impairment reserve

During 2022 (2021 - Nil), no amount 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 2021 and 2022.

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**

Notes to the financial statement
For the year ended 31 December 2022

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

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

2. Special impairment reserve (continued)

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.

Movement of provisions under IFRS 9 and CBO norms for the year ended 31 December 2021

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Opening Balance - 1 January 2021	146,647	132,312	14,335
Allowance for expected credit losses charge for the year	31,252	34,944	(3,692)
Less: write-back during the year	(10,294)	(10,294)	-
Less: written off during the year	(6,429)	(6,429)	-
Closing balance - 31 December 2021	161,176	150,533	10,643
Total after tax (Net)			9,047

Movement of IFRS 9 Special Impairment Reserve for the year ended 31 December 2021

	RO'000
Opening Balance - 1 January 2021	12,184
Net charge for the year after tax	-
Closing Balance as at 31 December 2021	**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 (conventional and Islamic) (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 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 (conventional and Islamic) (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 2021:

RO'000

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Central Bank balances	221,495	-	-	221,495
Due from Banks	126,248	-	-	126,248
Sovereign	404,041	-	-	404,041
Investment Securities at amortized cost	917	-	-	917
Investment Securities at FVOCI	36,192	-	-	36,192
Loans and advances	2,608,026	726,143	179,653	3,513,822
Accrued Interest	32,460	12,770	54	45,284
Acceptances	175,018	6,080	-	181,098
Total funded gross exposure	**3,604,397**	**744,993**	**179,707**	**4,529,097**
Letters of credit/guarantee	463,445	98,632	7,148	569,225
Loan commitment / unutilised limits	427,530	195,875	-	623,405
Total non-funded gross exposure	**890,975**	**294,507**	**7,148**	**1,192,630**
Total gross exposure	**4,495,372**	**1,039,500**	**186,855**	**5,721,727**
Allowance for expected credit losses				
Central Bank balances	-	-	-	-
Due from Banks	1,150	-	-	1,150
Sovereign	-	-	-	-
Investment Securities at amortized cost	-	-	-	-
Investment Securities at FVOCI	247	-	-	247
Loans and advances	20,015	34,931	82,535*	137,481
Accrued Interest	131	212	-	343
Acceptances	899	16	-	915
Total funded allowance for expected credit losses	**22,442**	**35,159**	**82,535**	**140,136**
Letters of credit/guarantee	3,534	4,054	-	7,588
Loan commitment/unutilised limits	1,669	1,140	-	2,809
Total non-funded allowance for expected credit losses	**5,203**	**5,194**	**-**	**10,397**
Total allowance for expected credit losses	**27,645**	**40,353**	**82,535**	**150,533**
Net exposure				
Central Bank balances	221,495	-	-	221,495
Due from Banks	125,098	-	-	125,098
Sovereign	404,041	-	-	404,041
Investment Securities at amortized Cost	917	-	-	917
Investment Securities at FVOCI	35,945	-	-	35,945
Loans and advances	2,588,011	691,212	97,118	3,376,341
Accrued Interest	32,329	12,558	54	44,941
Acceptances	174,119	6,064	-	180,183
Total funded net exposure	**3,581,955**	**709,834**	**97,172**	**4,388,961**
Letters of credit/guarantee	459,911	94,578	7,148	561,637
Loan commitment / unutilised limits	425,861	194,735	-	620,596
Total net non-funded exposure	**885,772**	**289,313**	**7,148**	**1,182,233**
Total net exposure	**4,467,727**	**999,147**	**104,320**	**5,571,194**

Gross exposure of loans and advances of RO 179.65 million under stage 3 includes reserved interest of RO 30.12 million.

* This includes the ECL pertaining to RO 2.96 million of stage 3 financial guarantees.

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

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

	Stage 1	Stage 2	Stage 3	Total RO'000
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	**27,645**	**40,353**	**82,535**	**150,533**
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**

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.

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

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

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.

	Stage 1	Stage 2	Stage 3	Total RO'000
Opening Balance – as of 1 January 2021				
- Due from banks	454	-	-	454
- Loans and advances to customers	17,626	33,714	68,228	119,568
- Investment securities at FVOCI (Debt)	238	-	-	238
- Loan commitments and financial guarantees	2,598	5,739	-	8,337
- Acceptances	341	15	-	356
- Unutilised	2,001	958	-	2,959
- Interest Accrued	111	289	-	400
Total	**23,369**	**40,715**	**68,228**	**132,312**
Net transfer between stages				
- Loans and advances to customers	386	(11,351)	10,965	-
- Loan commitments and financial guarantees	24	(24)	-	-
-Unutilised	39	(39)	-	-
-Interest Accrued	-	-	-	-
Total	**448**	**(11,413)**	**10,965**	**-**
Charge for the Year (net of recoveries)				
- Due from banks	697	-	-	697
- Loans and advances to customers	2,003	12,568	9,771	24,342
- Investment securities at FVOCI (Debt)	9	-	-	9
- Letter of credit and financial guarantees	912	(1,661)	-	(749)
- Acceptances	558	1	-	559
- Unutilised	(371)	221	-	(150)
- Interest accrued	20	(77)	-	(57)
Total	**3,828**	**11,052**	**9,771**	**24,651**
Written-off loans and advances to customers	**-**	**-**	**(6,429)**	**(6,429)**
Closing Balance – as at 31 December 2021				
- 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
- Loan commitment/unutilised limits	1,669	1,140	-	2,809
- Interest accrued	131	212	-	343
Total expected credit loss	**27,645**	**40,353**	**82,535**	**150,533**

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

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

2022

Due from Bank	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
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				
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 (conventional and Islamic) (continued)

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

Loans and Advances	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
Opening Balance – 1 January 2022	20,015	34,931	82,535	137,481
Reclassification	131	212	-	343
Transfer between stages				
From Stage 1 to Stage 2	1,588	(1,246)	-	342
From Stage 2 to Stage 1	(161)	161	-	-
From 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				
Opening Balance – 1 January 2022	2,608,026	726,143	179,653	3,513,822
Transfer between stages				
From Stage 1 to Stage 2	20,471	(20,471)	-	-
From Stage 2 to Stage 1	(29,876)	29,876	-	-
From Stage 2 to Stage 3	(231)	(868)	1,099	-
Net Changes in Stage	(9,636)	8,537	1,099	-
Net Movements 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 (conventional and Islamic) (continued)

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

Investment securities	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
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				
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 Movements 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 (conventional and Islamic) (continued)

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

Acceptance	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
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				
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 Movements 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 (conventional and Islamic) (continued)

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

Letter of Credit/Guarantee	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
Opening Balance - 1 January 2022	3,534	4,054	-	7,588
Transfer between stages				
From Stage 1 to Stage 2	(12)	1 2	-	-
From Stage 2 to Stage 1	(1)	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				
Opening Balance - 1 January 2022	463,445	98,632	7,148	569,225
Transfer between stages				
From Stage 1 to Stage 2	(284)	284	-	-
From Stage 2 to Stage 1	(222)	222	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(506)	506	-	-
Net Movements 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 (conventional and Islamic) (continued)

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

Loan commitment / unutilised limits	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
Opening Balance - 1 January 2022	1,669	1,140	-	2,809
Transfer between stages				
From Stage 1 to Stage 2	19	(19)	-	-
From Stage 2 to Stage 1	11	(11)	-	-
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				
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 Movements 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 (conventional and Islamic) (continued)

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

Cash held by a custodian	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
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	-	-	5,716
Net Movement	5,316	-	-	5,716
Closing balance – 31 December 2022	5,316	-	-	5,716
Exposure Movement				
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 Movements 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 (conventional and Islamic) (continued)

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

2021

Due from Bank	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
Opening Balance – 1 January 2021	454	-	-	454
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	697	-	-	697
Net Movement	697	-	-	697
Closing balance – 31 December 2021	1,150	-	-	1,150
Exposure Movement				
Opening Balance – 1 January 2021	121,976	-	-	121,976
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	4,272	-	-	4,272
Net Movement	4,272	-	-	4,272
Closing balance – 31 December 2021	126,248	-	-	126,248

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

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

Loans and Advances	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
Opening Balance – 1 January 2021	17,626	33,714	68,228	119,568
Transfer between stages				
From Stage 1 to Stage 2	(1,080)	1,080	-	-
From Stage 2 to Stage 1	1,466	(1,466)	-	-
From Stage 2 to Stage 3	-	(10,965)	10,965	-
Net Changes in Stage	386	(11,351)	10,965	-
Net Movement during the year	2,003	12,568	9,771	24,342
Net Movement	2,003	12,568	9,771	24,342
Write off	-	-	(6,429)	(6,429)
Closing balance – 31 December 2021	20,015	34,931	82,535	137,481
Exposure Movement				
Opening Balance – 1 January 2021	2,592,730	662,478	154,567	3,409,775
Transfer between stages				
From Stage 1 to Stage 2	(148,728)	148,728	-	-
From Stage 2 to Stage 1	112,264	(112,264)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(36,464)	36,464	-	-
Net Movements during the year	51,760	27,201	25,086	104,047
Net Movement	51,760	27,201	25,086	104,047
Closing balance – 31 December 2021	2,608,026	726,143	179,653	3,513,822

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

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

Investment	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
Opening Balance – 1 January 2021	238	-	-	238
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	9	-	-	9
Net Movement	9	-	-	9
Closing balance – 31 December 2021	247	-	-	247
Exposure Movement				
Opening Balance – 1 January 2021	56,959	-	-	56,959
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	(19,850)	-	-	(19,850)
Net Movement	(19,850)	-	-	(19,850)
Closing balance – 31 December 2021	37,109	-	-	37,109

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

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

Acceptance	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
Opening Balance – 1 January 2021	341	15	-	356
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	558	1	-	559
Net Movement	558	1	-	559
Closing balance – 31 December 2021	899	16	-	915
Exposure Movement				
Opening Balance – 1 January 2021	97,636	6,496	-	104,132
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	77,382	(416)	-	76,966
Net Movement	77,382	(416)	-	76,966
Closing balance – 31 December 2021	175,018	6,080	-	181,098

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

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

Letter of Credit/Guarantees	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
Opening Balance – 1 January 2021	2,598	5,739	-	8,337
Transfer between stages				
From Stage 1 to Stage 2	(87)	87	-	-
From Stage 2 to Stage 1	111	(111)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	24	(24)	-	-
Net Movement during the year	912	(1,661)	-	(749)
Net Movement	912	(1,661)	-	(749)
Closing balance – 31 December 2021	3,534	4,054	-	7,588
Exposure Movement				
Opening Balance – 1 January 2021	557,480	102,058	1,953	661,491
Transfer between stages				
From Stage 1 to Stage 2	(13,865)	13,865	-	-
From Stage 2 to Stage 1	6,892	(6,892)	-	-
From Stage 2 to Stage 3	-	(5,195)	5,195	-
Net Changes in Stage	(6,973)	1,778	5,195	-
Net Movements during the year	(87,062)	(5,204)	-	(92,266)
Net Movement	(87,062)	(5,204)	-	(92,266)
Closing balance – 31 December 2021	463,445	98,632	7,148	569,225

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

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

Loan commitment / unutilised limits	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
Opening Balance – 1 January 2021	2,001	958	-	2,959
Transfer between stages				
From Stage 1 to Stage 2	(83)	83	-	-
From Stage 2 to Stage 1	122	(122)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	39	(39)	-	-
Net Movement during the year	(371)	221	-	(150)
Net Movement	(371)	221	-	(150)
Closing balance – 31 December 2021	1,669	1,140	-	2,809
Exposure Movement				
Opening Balance – 1 January 2021	565,571	178,349	-	743,920
Transfer between stages				
From Stage 1 to Stage 2	(26,073)	26,073	-	-
From Stage 2 to Stage 1	24,461	(24,461)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(1,612)	1,612	-	-
Net Movements during the year	(136,429)	15,914	-	(120,515)
Net Movement	(136,429)	15,914	-	(120,515)
Closing balance – 31 December 2021	427,530	195,875	-	623,405

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

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

Accrued Interest / Profit	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
Opening Balance – 1 January 2021	111	289	-	400
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	20	(77)	-	(57)
Net Movement	20	(77)	-	(57)
Closing balance – 31 December 2021	131	212	-	343
Exposure Movement				
Opening Balance – 1 January 2021	31,717	9,753	656	42,126
Transfer between stages				
From Stage 1 to Stage 2	(3,210)	3,210	-	-
From Stage 2 to Stage 1	709	(53)	(656)	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(2,501)	3,157	(656)	-
Net Movements during the year	3,244	(140)	54	3,158
Net Movement	3,244	(140)	54	3,158
Closing balance – 31 December 2021	32,460	12,770	54	45,284

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

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

Sovereign	Stage 1	Stage 2	Stage 3	Total RO'000
Exposure Movement				
Opening Balance – 1 January 2021	393,700	-	-	393,700
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	10,341	-	-	10,341
Net Movement	10,341	-	-	10,341
Closing balance – 31 December 2021	404,041	-	-	404,041

(h) Reconciliation of Financial assets And liability

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

RO'000

31 December 2022	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**	**-**	**-**	**60,771**	**65,501**
		5,447	**13,963**	**141,464**	**4,129,505**	**4,290,379**
Due to banks	11	**-**	**-**	**-**	**572,842**	**572,842**
Deposits from customers	12	**-**	**-**	**-**	**2,891,819**	**2,891,819**
Subordinated liabilities	13	**-**	**-**	**-**	**-**	**-**
Other liabilities	14	**3,970**	**-**	**-**	**117,992**	**121,962**
		3,970	**-**	**-**	**3,582,653**	**3,586,623**

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

(h) Reconciliation of Financial assets And liability (continued)

Other assets include RO 4.730 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 3.970 million.

RO'000

31 December 2021	Notes	Designated as at FVTPL	FVOCI - debt instruments	FVOCI – equity instruments	Amortised cost	Total carrying amount
Cash and balances with CBO	5	-	-	-	251,479	251,479
Loans and advances to banks	6	-	-	-	125,098	125,098
Loans and advances to customers	7	-	-	-	3,346,223	3,346,223
Investment securities	8	2,823	2,490	116,753	324,150	446,216
Other assets	11	6,601	-	-	238,925	245,526
		9,424	2,490	116,753	4,285,875	4,414,542
Due to banks	11	-	-	-	460,889	460,889
Deposits from customers	12	-	-	-	2,975,639	2,975,639
Subordinated liabilities	13	-	-	-	35,000	35,000
Other liabilities	14	5,053	-	-	254,264	259,317
		5,053	-	-	3,725,792	3,730,845

Other assets include RO 6.601 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 5.053 million.

8. Investment securities

	2022 RO'000	2021 RO'000
Equity investments:		
Measured at FVTPL	717	1,649
Measured at FVOCI	13,975	2,490
Gross equity investments	14,692	4,139
Debt investments:		
Designated at FVTPL	-	1,174
Measured at FVOCI	141,516	117,000
Measured at amortized cost	313,278	324,150
Gross debt investments	454,794	442,324
Total investment securities	469,486	446,463
Less: Impairment loss allowance	(64)	(247)
Total investment securities	469,422	446,216
Investment securities measured as at FVTPL	717	2,823
Investment securities measured at FVOCI	155,427	119,243
Debt investments measured at amortised cost	313,278	324,150
	469,422	446,216

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

As at 31 December 2022	Designated at FVTPL RO'000	FVOCI RO'000	Amortised cost RO'000	Total 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

Government Development Bonds and Sukuks represents Oman Government Bonds and Oman Sovereign Sukuk having face value of RO 363.47 million (2021: RO 382.3 million) at average coupon rate of 4.39% to 6% maturing between 2022 and 2029.

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO'000	FVOCI Equity investment RO'000	Amortised cost RO'000	FVTPL RO'000	Total RO'000
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)	(67,498)
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.

8. Investment securities (continued)

8. 1 Categories of investments by measurement (continued)

As at 31 December 2021	Designated at FVTPL RO'000	FVOCI RO'000	Amortised cost RO'000	Total RO'000
Quoted Equities:				
Other services sector	-	286	-	286
Unit funds	-	-	-	-
Financial services sector	-	199	-	199
Industrial sector	-	1,488	-	1,488
	-	1,973	-	1,973
Unquoted Equities:				
Local securities	-	517	-	517
Unit funds	1,649	-	-	1,649
	1,649	517	-	2,166
Gross Equity investments	1,649	2,490	-	4,139
Quoted Debt:				
Government Bonds and Sukuk	-	-	-	-
Foreign Bonds	1,174	80,808	323,233	404,041
Local Bonds and Sukuks	-	395	-	1,569
Treasury Bills	-	35,797	917	36,714
Gross debt investments	1,174	117,000	324,150	442,324
Total Investment Securities	2,823	119,490	324,150	446,463
Less: Impairment losses on investments	-	(247)	-	(247)
	2,823	119,243	324,150	446,216

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 RO'000	FVOCI Equity investment RO'000	Amortised cost RO'000	FVTPL RO'000	Total RO'000
At 1 January 2021	115,057	3,276	335,602	4,120	458,055
Additions	21,474	-	64,706	5	86,185
Disposals and redemption	(20,051)	(1,031)	(76,158)	(1,348)	(98,588)
Gain /(loss) from change in fair value	570	245	-	46	861
Amortisation of discount and premium	(50)	-	-	-	(50)
Total	117,000	2,490	324,150	2,823	446,463
Less: Impairment losses on investments	(247)	-	-	-	(247)
At 31 December 2021	116,753	2,490	324,150	2,823	446,216

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

9. Intangible asset

	31-Dec-2022 RO'000	31-Dec-2021 RO'000
Cost		
1 January 2022	**32,980**	28,506
Additions	**1,991**	4,474
	34,971	32,980
Depreciation		
1 January 2022	**20,214**	16,703
Charge for the year	**3,465**	3,511
	23,679	20,214
Carrying value	**11,292**	12,766

Intangible asset represents computer software acquired by the bank over the period. The estimated useful life of these intangible assets' ranges between five to ten years.

10. Property and equipment

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**	**1,226**	**2,870**	**41,826**
Additions	**-**	**-**	**1,195**	**50**	**2,205**	**62**	**138**	**3,650**
Disposals	**-**	**-**	**-**	**(355)**	**-**	**-**	**-**	**(355)**
31 December 2022	**140**	**1,463**	**19,544**	**995**	**18,683**	**1,288**	**3,008**	**45,121**
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**	**-**	**2,688**	**46**	**3,251**	**1,288**	**441**	**7,854**

10. Property and equipment (continued)

31 December 2021	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 2021	140	1,573	18,069	1,326	15,150	1,126	2,933	40,317
Additions	-	-	280	9	1,328	100	39	1,756
Disposals	-	(110)	-	(35)	-	-	(102)	(247)
31 December 2021	140	1,463	18,349	1,300	16,478	1,226	2,870	41,826
Depreciation								
1 January 2021	-	1,410	14,310	1,252	12,227	-	1,476	30,675
Charge for the year	-	58	1,314	60	1,489	-	655	3,576
Disposals	-	(110)	-	(35)	-	-	(77)	(222)
31 December 2021	-	1,358	15,624	1,277	13,716	-	2,054	34,029
Carrying value 31 December 2021	140	105	2,725	23	2,762	1,226	816	7,797

11. Other assets

	2022 RO'000	2021 RO'000
Acceptances	**39,996**	181,098
Interest receivable*	**-**	45,284
Prepaid expenses	**1,680**	1,519
Positive fair value of derivatives (note 30)	**4,730**	6,601
Other receivables	**20,794**	12,543
Less: allowance for expected credit losses	**(19)**	(1,258)
	67,181	245,787

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

* As at 31 December 2022, interest receivable of RO 34.25 million is reclassified to the respective category of financial assets.

12. Due to banks

	2022 RO'000	2021 RO'000
Syndicated Inter bank borrowings	**288,750**	308,000
Interbank borrowings	**283,909**	152,615
Payable on demand	**183**	274
	572,842	460,889

At 31 December 2022, inter bank borrowings includes Islamic Banking Window's inter bank borrowings with other banks of RO 19.25 million (2021: RO 25.03 million). The Bank has complied with the financial covenant of its borrowing facilities during the year 2022 and 2021.

At 31 December 2022, interbank borrowing with two banks individually exceeded 20% of the due to bank outstanding balance (2021 – 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

Conventional Banking

	2022 RO'000	2021 RO'000
Current accounts	**680,269**	754,317
Savings accounts	**398,950**	485,352
Time and certificate of deposits	**1,324,059**	1,287,917
Margin accounts	**13,409**	11,036
	2,416,687	2,538,622

Islamic Banking

	2022 RO'000	2021 RO'000
Current accounts	**154,272**	153,436
Savings accounts	**54,145**	64,443
Time deposits	**266,715**	219,138
	475,132	437,017

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,078.28 million as at 31 December 2022 (2021: RO 1,119.10 million).

14. Other liabilities

	2022 RO'000	2021 RO'000
Acceptances	**39,996**	181,098
Interest payable*	**-**	11,043
Creditors and accruals	**68,478**	48,895
Negative Fair Value of Derivative (note 30)	**3,970**	5,053
Lease liabilities	**357**	474
Allowance for expected credit losses on off-balance sheet items (note 7)	**8,023**	10,397
	120,824	256,960

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

* As at 31 December 2022, interest payable of RO 10.99 million is reclassified to the respective category of financial liabilities.

14(a) Employee benefit obligations

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

	2022 RO'000	2021 RO'000
1 January 2022	**2,357**	2,623
Charge for the year	**291**	471
Payments made during the year	**(1,510)**	(737)
	1,138	2,357

15. Subordinated loans

In accordance with the Central Bank of Oman's regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes.

	2022 RO'000	2021 RO'000
Subordinated loan	**-**	35,000
	-	35,000

1. In November 2022, the Bank repaid the RO 35 million unsecured subordinated loan which was availed in May 2017.
2. In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenor of 66 months. These facilities carry a fixed rate of interest, payable half yearly and the principal being repaid on maturity.
3. Details regarding movement in subordinated loan reserve are set out in note 18(b) in Notes to the financial statements.

Notes to the financial statement
For the year ended 31 December 2022

16.(a) Share capital

The authorised share capital consists of 5,000,000,000 ordinary shared of RO 0.100 each (2021: 5,000,000,000 ordinary shares of RO 0.100 each).

At 31 December 2022, the issued and paid up share capital comprise 2,996,351,436 (2021: 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:

	2022		2021	
	No. of shares	%	No. of shares	%
Dhofar International Development and Investment Company SAOG	**730,570,498**	**24.38%**	730,570,498	24.38%
Eng. Abdul Hafidh Salim Rajab Al Ojaili and his related Companies	**713,971,362**	**23.83%**	702,766,215	23.45%
Civil Service Employees Pension Fund	**317,814,101**	**10.61%**	316,992,297	10.58%
Others	**1,233,995,475**	**41.18%**	1,246,022,426	41.58%
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 2022 (2021 : RO 70 million)

16.(b) Perpetual Tier 1 Capital Securities

	2022 RO'000	2021 RO'000
Tier 1 USD Securities	**-**	115,500
Tier 1 RO Securities	**155,500**	40,000
	155,500	155,500

Tier 1 USD Securities

On 27 May 2015, the Bank had issued Perpetual Tier 1 USD Capital Securities (the "Tier 1 USD Securities"), amounting to USD 300,000,000. This Tier 1 USD Securities were listed in Irish Stock Exchange (now traded as Euronext Dublin).

The Tier 1 USD Securities constituted direct, unconditional, subordinated and unsecured obligations of the Bank and were classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 USD Securities did not have a fixed or final maturity date. They were redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority. However, due to the prevailing Covid-19 global pandemic and market conditions at that time, the Bank was not able to exercise the option at the First Call Date. On 27 November 2022, the Bank has exercised the option of the call date and repaid the AT1 Securities amounting to USD 300,000,000.

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

Tier 1 USD Securities (continued)

The Tier 1 USD Securities bore interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. As specified in the terms and conditions of Tier 1 USD Securities, the interest for the five year reset period is at fixed annual rate of 5.519% from the First Call Date. Interest was payable semi-annually in arrears and treated as deduction from equity.

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 2018, 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 7.50%. 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-3 and Central Bank of Oman Regulations (BM-1114).

17. Share premium

1. 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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

(1) Legal reserve

	2022 RO'000	2021 RO'000
1 January	**64,538**	62,025
Appropriation for the year	**3,417**	2,513
31 December	**67,955**	64,538

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.

(2) Subordinated loans reserve

	2022 RO'000	2021 RO'000
1 January	**28,000**	21,000
Appropriation for the year:		
Subordinated loan reserve	**7,000**	7,000
Transfer to retained earnings (refer (i) below)	**(35,000)**	-
31 December	**-**	28,000

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.

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

18. Reserves (continued)

(3) 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:

	2022 RO'000	2021 RO'000
1 January	**(3,477)**	(2,370)
Change in fair value of debt instruments	**377**	570
Change in fair value of equity instruments	**(406)**	245
Change in investment reserve on disposal	**-**	(1,922)
31 December	**(3,506)**	(3,477)

(4) 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'.

(5) 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.

(6) 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.

(7) 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.

Notes to the financial statement
For the year ended 31 December 2022

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:

	2022 RO'000	2021 RO'000
Net assets (RO)	**561,577,000**	543,019,000
Number of shares outstanding at the end of the year	**2,996,351,436**	2,996,351,436
Net assets per share (RO)	**0.187**	0.181

21. Interest income / Income from Islamic financing and Investments

	2022 RO'000	2021 RO'000
Conventional Banking		
Loans and advances	**158,049**	149,964
Due from banks	**6,808**	5,199
Investments	**19,950**	17,969
Total	**184,807**	173,132
Islamic Banking		
Islamic financing receivables	**31,729**	28,946
Islamic due from banks	**67**	73
Investments	**4,666**	4,569
Total	**36,462**	33,588

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

	2022 RO'000	2021 RO'000
Conventional Banking		
Customers' deposits	**(64,743)**	(78,193)
Subordinated liabilities / mandatory convertible bonds	**(1,905)**	(2,188)
Bank borrowings	**(17,498)**	(9,992)
Total	**(84,146)**	(90,373)
Islamic Banking		
Customer Deposits	**(13,794)**	(13,380)
Islamic bank borrowings	**(913)**	(544)
Total	**(14,707)**	(13,924)

22. Interest expense / Unrestricted investment account holders' share of profit and profit expense (continued)

	2022 RO'000	2021 RO'000
(1) Other operating income		
Foreign exchange	**2,435**	5,088
Investment income 22 (b)	**716**	2,197
Miscellaneous income	**2,693**	1,291
	5,844	8,576
(2) Investment income by measurement category		
Dividend income	**265**	126
Income from perpetual securities	**438**	-
Gain on disposals of investments – FVOCI	**-**	2,025
Gain on disposals of investments – FVTPL	**13**	46
	716	2,197

23. Staff and administrative costs

	2022 RO'000	2021 RO'000
(1) Staff costs		
Salaries and allowances	**(33,085)**	(33,398)
Other personnel costs	**(5,028)**	(8,388)
Social insurance contribution	**(2,624)**	(2,544)
Non-Omani employee's terminal benefit	**(291)**	(471)
	(41,028)	(44,801)
On 31 December 2022, the Bank had 1,509 employees (2021: 1,481 employees).		
(2) Administrative costs		
Occupancy costs	**(3,098)**	(3,416)
Operating and administration cost	**(13,681)**	(15,858)
Others	**(4,818)**	(1,178)
	(21,597)	(20,452)
Total staff and administrative cost	**(62,625)**	(65,253)

24. Income tax

(1) Income tax expense:

	2022 RO'000	2021 RO'000
Current tax		
Current year charge	**10,600**	2,486
Prior years	**(1,863)**	(75)
	8,737	2,411
Deferred tax		
Current year	**(4,533)**	1,976
Prior years	**1,827**	(55)
	(2,706)	1,921
Tax expense for the year	**6,031**	4,332

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 2022. The Tax Authority ("TA") has completed the assessment for the years 2015 to 2017 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% (2021: 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% (2021: 14.71%).

(2) The reconciliation of taxation on the accounting profit before tax for the year at RO 40.20 million (2021: RO 29.45 million) and the taxation charge in the financial statements is as follows:

	2022 RO'000	2021 RO'000
Profit before tax	**40,204**	29,455
Income tax as per rates mentioned above	**6,031**	4,418
Tax exempt revenue	**50**	82
Non-deductible expenses	**(14)**	(38)
Current tax Prior years	**(1,863)**	(75)
Deferred tax - prior years	**1,827**	(55)
Tax expense for the year	**6,031**	4,332

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

24. Income tax (continued)

(3) The deferred tax asset/liability has been recognised at the effective tax rate of 15% (2021 - 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	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**

Particulars	Opening RO '000	Recognised in SCI	2021 RO '000	Recognised in SOCE
Property and equipment	(728)	2	(726)	-
Provision for legal claim	180	196	376	-
Right of Use Asset and lease liability	(119)	67	(52)	-
Allowance for expected credit losses on financial instruments	5,977	(2,192)	3,785	-
Investment revaluation (Non listed)	121	-	121	-
Fair value derivatives	(96)	-	(96)	-
Investment carried at fair value through profit and loss account	5	7	12	-
Net deferred tax asset	5,340	(1,920)	3,420	-

24. Income tax (continued)

(4) 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 2017. The Bank is in the process of filing the Objection for disallowance of Interest on Additional Tier 1 Securities for the Tax Years 2018 to 2020. The tax assessment of the Bank for the Tax Year 2021 is yet to be taken up by the TA.

(5) Tax liability

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

	2022 RO'000	2021 RO'000
At 1 January	**9,422**	17,804
Charge for the year	**8,737**	2,411
Payments during the year	**(4,527)**	(10,793)
At 31 December	**13,632**	9,422

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:

	2022 RO'000	2021 RO'000
Profit for the period (RO)	**34,173,371**	25,122,850
Less: Additional Tier 1 Coupon	**(9,375,600)**	(9,376,000)
Profit for the period attributable to equity holders of the Bank	**24,797,771**	15,746,850
Weighted average number of shares outstanding during the period	**2,996,351,436**	2,996,351,436
Earnings per share basic and diluted (RO)	**0.008**	0.005

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 partie's 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:

	2022 RO'000	2021 RO'000
Loans, advances and financing		
Shareholders holding 20% or more interest in the Bank and their related entities	**52,250**	53,728
Other related parties	**68,798**	63,788
	121,048	117,516
Subordinated loans		
Directors	**-**	15,000
Other related parties	**-**	14,000
	-	29,000
Deposits and other accounts		
Shareholders holding 20% or more interest in the Bank and their related entities	**58,452**	54,117
Other related parties	**306,127**	287,294
	364,579	341,411
Contingent liabilities and commitments		
Shareholders holding 20% or more interest in the Bank and their related entities	**3,983**	3,100
Other related parties	**5,678**	16,950
	9,661	20,050

Interest Income earned from Loans and advances to Related Parties amounts to RO 7.28 million (2021: RO 6.09 million) of which RO 1.28 million (2021: RO 2.67 million) pertains to Directors, shareholders (holding 20% or more interest in the Bank).

Interest Expense incurred on Deposits from Related parties amounts to RO 7.30 million (2021: RO 14.93 million) of which RO 3.88 million (2021: RO 7.61 million) pertains to Directors, shareholders (holding 10% or more interest in the Bank), RO 1.71 million (2021: RO 1.13 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.

26. Related parties transactions (continued)

	2022 RO'000	2021 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	**73**	74
	383	384
Other transactions		
Rental payment to related parties	**541**	539
Insurance	**1,847**	1,970
Other transactions	**-**	101
Remuneration and fees proposed to Sharia' Board of Islamic Banking Window	**46**	53
Key management compensation		
Salaries and other short-term benefits	**1,695**	1,745

Loans to related parties carry interest at rates ranging between 2% and 7% (2021: 2% and 7%). Deposits from related parties attract interest at rates ranging between 0.5% and 4.4% (2021: 0% and 4.85%).

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.

	2022 RO'000	2021 RO'000
(a) Single borrower		
Total direct exposure	**462,627**	483,367
Number of members	**2**	2
(b) Senior members		
Total exposure:		
Direct	**124,974**	123,432
Indirect	**9,661**	20,050
	134,635	143,482
Number of members	**41**	41

28. Contingent liabilities and commitments

(1) Credit related contingent items

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

	2022 RO'000	2021 RO'000
Letters of credit	**88,961**	68,983
Guarantees and performance bonds	**573,787**	500,242
	662,748	569,225

At 31 December 2022, letters of credit, guarantees and other commitments amounting to RO 293.72 (2021: RO 168.18 million) are counter guaranteed by other banks.

At 31 December 2022, the Irrevocable unutilised limits towards the loans, advances and financing to customer amount to RO 614.94 million (2021: 623.41 million).

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

(2) Capital and investment commitments

	2022 RO'000	2021 RO'000
Contractual commitments for property and equipment/computer software	**3,001**	4,927

(3) Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2022. 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

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**

31 December 2021	Retail banking RO '000	Corporate banking RO '000	Treasury and investment banking RO '000	Total RO '000
Fee Income				
Transactional services	7,461	21	-	7,482
Trade services	-	3,784	57	3,841
Syndication and other financing related services	782	4,448	1,244	6,474
Advisory and asset management services	-	109	-	109
	8,243	8,362	1,301	17,906
Fee Expense				
Transactional Services	(1,409)	-	-	(1,409)
Syndication and Other Financing related services	-	-	(1,050)	(1,050)
Fee Expense	(1,409)	-	(1,050)	(2,459)
Net fee and commission income	6,834	8,362	251	15,447

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.

31 December 2022						RO 000's
				Notional amounts by term to maturity		
	Positive fair value	Negative Fair Value	Notional amount total	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**

30. Derivative financial instruments (continued)

31 December 2021						RO 000's
				Notional amounts by term to maturity		
	Positive fair value	Negative Fair Value	Notional amount total	within 3 months	4-12 months	> 12 months
Derivatives:						
Interest rate swaps	-	4,310	63,133	-	2,272	60,861
IRS customer	4,310	-	63,133	-	2,272	60,861
Forward purchase contracts	-	743	1,479,094	777,403	581,154	120,537
Forward sales contracts	2,291	-	1,474,966	774,822	581,154	119,350
Total	6,601	5,053	3,080,326	1,552,225	1,166,852	361,609

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-2022 RO '000	31-Dec-2021 RO '000	31-Dec-2022 RO '000	31-Dec-2021 RO '000
Expected cash flows	**760**	1,547	**790**	1,547

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 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	133,581	24,687	1,408	159,676	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	-

At 31 December 2021	Level 1 RO '000	Level 2 RO '000	Level 3 RO '000	Total RO '000	Cost RO '000
Financial assets					
Investments at FVOCI	118,973	-	517	119,490	122,967
Investments at FVTPL	1,174	-	1,649	2,823	3,155
Derivative financial instruments					
Forward foreign exchange contracts	-	2,291	-	2,291	-
IRS customer	-	4,310	-	4,310	-
Total	120,147	6,601	2,166	128,914	126,122
Financial liabilities					
Derivative financial instruments					
Forward foreign exchange contracts	-	4,310	-	4,310	-
Interest rate swaps	-	743	-	743	-
Total	-	5,053	-	5,053	-

31. Fair value information (continued)

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 2022

	FVTPL RO'000	FVOCI RO'000	Total RO'000
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

Level 3 movement – 31 December 2021

	FVTPL RO'000	FVOCI RO'000	Total RO'000
At 1 January	1,697	573	2,270
Total gains	127	52	179
Purchases	5	-	5
Sales	(288)	-	(288)
Transfer from level 3	-	-	-
At 31 December	1,541	625	2,166

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.

1. 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.

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.

Impact of COVID-19

The impact of coronavirus pandemic has subsided to certain extent and is relatively stable now. The number of Covid cases has declined considerably and the levels remain far below those of prior surges. However, the disruption to business and economic activities throughout various geographies around the globe continues. The pandemic has slowed down trade and economic activities with large economies still facing supply disruption and rise in energy cost. The Ukraine- Russia war has further added to the uncertainties around economic challenges faced by various countries Accordingly, the fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

The Government of Oman and Central Bank of Oman have taken slew of measures to control the pandemic and improve the economic conditions over the last 3 years. This include providing necessary support to affected borrowers particularly Small and Medium Enterprises (SME), wherein CBO allowed deferment of loan instalments/ interest/ profit for affected borrowers and the availability of the deferment, without adversely affecting the risk classification of such loans. All effected borrowers (Corporate, SME and Retail) who have availed/ are availing the loan deferment could be rescheduled/ restructured as per CBO circular till 31 October 2022. The restructuring/

32. Financial risk management (continued)

1. Credit Risk (continued)

rescheduling implemented include rescheduling of repayments, recovery of interest/ profit accrued during deferment period (without charging interest on interest/ profit on profit on that portion) granting of reasonable grace period, extending suitable tenor etc. based on proper assessment of the current and future cash flows/ income streams of the borrower. Banks need to maintain adequate level of provisioning against each restructured account.

The Bank 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 loans, 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.

In line with the CBO guidelines, The Bank has considered restructuring of all eligible accounts whose cash flows have been impacted by the COVID-19 situation and 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 IFRS 9. As at 31 December 2022, The Bank has restructured loans amounting to OMR 544.2 million, constituting 13.8% 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 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 additional ECL provisions and allowance for expected credit losses as disclosed in note 7 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 exposures are undertaken on selective basis duly supported by the cash flows that can be firmly established and the requirements are considered with proper monitoring mechanism.

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 2022, 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 (%)	As at 31 December 2021	**As at 31 December 2022**	Oil revenue (%GDP)	As at 31 December 2021	**As at 31 December 2022**
Present	(4.30%)	**12.70%**	Present	23.80%	**25.97%**
Year 1	1.80%	**5.60%**	Year 1 Projection	30.29%	**33.35%**
Year 2	7.40%	**2.70%**	Year 2 Projection	33.13%	**28.77%**
Year 3	2.70%	**2.50%**	Year 3 Projection	32.94%	**26.35%**

32. Financial risk management (continued)

1. Credit Risk (continued)

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 2022 for 2021 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 2022 stood at OMR 184.012 Mn as compared to OMR 150.53 Mn as at 31 December 2021. The total ECL has increased by OMR 33.482 Mn, which is 22.24% more than the last year position. Out of OMR 184.012 Mn, Bank is maintaining ECL of OMR 133.949 Mn (2021: OMR 92.24 Mn) in Corporate portfolio, OMR 3.490 Mn (2021: OMR 8.19 Mn) in SME portfolio and OMR 45.433 Mn (2021: 43.94 Mn) 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 3.7 Mn (31 December 2021- RO 14 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.

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.

2022	ECL for				Total
Scenarios	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**

2021	ECL for				Total
Scenarios	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	126,879	10,602	247	12,805	150,533
100% Base case scenario	133,016	10,154	255	9,961	153,386
100% Downside scenario	150,753	12,585	397	14,191	177,926

The above table reveals that in case of 100% downside scenario, the ECL may increase by OMR 14.516 million (2021: 27.39 million) from the current position.

32. Financial risk management (continued)

1. Credit Risk (continued)

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 2021, the bank had a deferred portfolio of RO 670 million out of which RO 544 million is restructured as of 31st December 2022 and the stagewise details are as follows:

Classification/Stage As per IFRS-9	Restructured (RO 000's)	ECL (RO 000's)
Stage 1	111,554	2,906
Stage 2	432,663	31,484
Total	**544,217**	**34,390**

The restructured accounts under process, pertaining to those who availed deferment as at 31st December 2022, amounts to RO 9.677 million.

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 0.49% (2021: 0.28%) due to application of above prudential filter.

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure

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

1. Geographical concentrations

	Assets			Liabilities		
	Gross loans and financing to banks RO'000	Gross Loans, advances and financing to customers RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
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**
31 December 2021						
Sultanate of Oman	42,725	3,513,571	444,894	2,975,312	30,074	470,933
Other GCC countries	42,980	-	717	175	413,490	47,235
Europe and North America	6,081	251	-	-	9,625	29,827
Africa and Asia	34,462	-	852	152	7,700	21,230
	126,248	3,513,822	446,463	2,975,639	460,889	569,225

Loan commitment of RO 614.94 million as at 31 December 2022 (31 December 2021: RO 623.41 million) arises from the customers in the Sultanate of Oman.

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

2. Customer concentrations

	Assets			Liabilities		
	Gross loans and financing to banks RO'000	Gross Loans, advances and financing to customers RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
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**
31 December 2021						
Personal	-	1,260,349	-	801,147	-	1,674
Corporate	126,248	1,804,372	41,505	1,055,394	460,889	567,308
Government	-	449,101	404,958	1,119,098	-	243
	126,248	3,513,822	446,463	2,975,639	460,889	569,225

Loan commitment of RO 614.94 million as at 31 December 2022 (31 December 2021: RO 623.41 million) substantially arises from the corporate customers.

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

3. Economic sector concentrations

	Gross loans, advances and financing to customers RO'000	Deposits from customers RO'000	Contingent liabilities RO'000	Loan Commitment
31 December 2022				
Personal	**1,272,216**	**1,296,562**	**1,343**	**-**
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**	**246,781**	**64,604**	**86,551**
	3,646,652	**2,891,819**	**662,748**	**614,939**
31 December 2021				
Personal	1,260,394	1,249,051	1,674	10,989
International trade	129,017	187,012	32,167	1,244
Construction	443,719	96,187	222,583	269,178
Manufacturing	285,761	77,770	28,105	120,326
Wholesale and retail trade	116,434	20,580	18,083	82,797
Communication and utilities	257,618	88,252	22,081	42,420
Financial services	189,264	43,611	211,645	26,129
Government	147,324	843,181	1,277	26,803
Other services	371,629	190,556	20,364	40,798
Others	312,662	179,439	11,246	2,726
	3,513,822	2,975,639	569,225	623,410

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

4. Gross credit exposure

	Total gross exposure		Monthly average gross exposure	
	2022 RO '000	2021 RO '000	2022 RO '000	2021 RO '000
Overdrafts	**123,550**	113,544	**119,878**	121,263
Loans	**2,820,805**	2,769,153	**2,729,681**	2,752,245
Loans against trust receipts	**97,069**	91,730	**95,687**	91,520
Bills discounted	**31,063**	29,160	**32,843**	36,011
Advance against credit cards	**8,669**	8,144	**8,272**	8,126
Islamic Banking Window financing	**565,496**	502,091	**536,316**	496,289
Total	**3,646,652**	3,513,822	**3,522,677**	3,505,454

5. Geographical distribution of funded exposures:

	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**
31 December 2021			
Overdrafts	113,544	-	113,544
Loans	2,769,153	-	2,769,153
Loans against trust receipts	91,730	-	91,730
Advance against credit cards	8,144	-	8,144
Bills discounted and advances against receivables	28,909	251	29,160
Islamic Banking Window financing	502,091	-	502,091
	3,513,571	251	3,513,822

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

6. 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
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

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

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

	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
31 December 2021							
Import trade	8,418	95,700	-	16,798	120,916	26,763	-
Export trade	221	7,872	-	7	8,100	5,404	1,472
Wholesale/ retail trade	4,463	109,284	-	2,687	116,434	18,083	83,538
Mining and quarrying	1,435	105,060	-	12	106,507	676	33,580
Construction	43,883	342,719	-	57,116	443,718	222,583	269,080
Manufacturing	18,271	233,847	880	32,762	285,760	28,105	86,687
Electricity, gas and water	1,099	196,113	-	416	197,628	17,197	41,227
Transport and Communication	1,264	58,207	-	518	59,989	4,884	1,178
Financial institutions	2,314	186,079	871	-	189,264	211,645	26,119
Services	20,083	347,660	122	3,763	371,628	20,364	40,783
Personal loans	1,425	1,075,613	-	7,805	1,084,843	1,674	10,228
Agriculture and allied Activities	3,812	1,097	-	4,828	9,737	5,649	1,590
Government	-	322,858	-	18	322,876	1,277	26,794
Non-resident lending	-	-	-	16,798	16,798	-	-
Others	6,856	189,134	-	429	196,419	4,921	1,135
	113,544	3,271,243	1,873	143,957	3,513,822	569,225	623,410

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

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

	2022 RO'000	2021 RO'000
Cash held by custodian and Central Bank balances	**142,692**	191,511
Due from Banks	**148,353**	125,098
Sovereign	**398,445**	404,041
Investment Securities at amortized Cost	**9,647**	917
Investment Securities at FVOCI	**46,638**	35,945
Loans and advances	**3,470,851**	3,376,341
Other receivables	**20,794**	12,543
Accrued Interest	**-**	44,941
Acceptances	**39,996**	180,183
Total funded net exposure	**4,277,416**	4,371,520
Off-balance sheet items		
Loan commitments / unutilised limits	**613,104**	620,596
Letter of credit/guarantee	**656,560**	561,637
	5,581,005	5,583,737

As at 31 December 2022, the Bank has total gross impaired loans of RO 214.08 million (2021: RO 179.65 million) which includes interest reserved of RO 40.37 (2021: RO 30.12) million against principal outstanding of RO 173.71 (2021: RO 149.53) million expected credit losses of RO 102.52 million (2021: RO 82.54 million) million have been carried.

8. 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 2022 including loan commitment and financial guarantees:

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

8. Credit Quality Analysis (continuted)

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
31 December 2022				
Exposure				
Banks and cash held with a custodian	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**

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 2021				
Exposure				
Banks	539,930	390	-	540,320
Sovereigns	404,041	-	-	404,041
Wholesale banking	2,302,494	1,026,136	126,457	3,455,087
Retail banking	1,211,798	12,974	60,398	1,285,170
Investments	37,109	-	-	37,109
Total	4,495,372	1,039,500	186,855	5,721,727
Provision for expected credit losses	27,645	40,353	82,535	150,533

9. Inputs, assumptions and techniques used for estimating impairment

1. 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.

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

9. Inputs, assumptions and techniques used for estimating impairment (continued)

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.

2. 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 2022

Real GDP growth (%)		Oil revenue (%GDP)	
Present	12.70%	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%

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 2021

Real GDP growth (%)		Oil revenue (%GDP)	
Present	(4.30%)	Present	23.80%
Year 1 Projection	1.80%	Year 1 Projection	30.29%
Year 2 Projection	7.40%	Year 2 Projection	33.13%
Year 3 Projection	2.70%	Year 3 Projection	32.94%

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.

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

9. Inputs, assumptions and techniques used for estimating impairment (continued)

2. Economic variable assumptions (continued)

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

The following tables shows estimate of the ECL on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at 31 December 2021, 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)**	**68**	-
Sensitivity:		
ECL if only Upside case happens - 100% probability	**39**	(29)
ECL if only Base case happens - 100% probability	**70**	2
ECL if only Downside case happens - 100% probability	**95**	27

** 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.

3. Sensitivity analysis

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

Retail portfolios

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

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

Wholesale portfolios

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

10. 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 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%**
31 December 2021						
Wholesale banking	750	126,457	17,981	108,426	49,667	45.81%
Retail banking	7,005	60,398	12,136	48,258	32,868	68.11%
Total	7,755	186,855	30,117	156,684	82,535	52.68%

The Banks seeks to recover amounts it is legally owed in full, but which has been partially written off and in 2022 the bank recovered RO 1.078 million (2021: RO 136.74)

11. 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)

1. Credit Risk (continued)

A. Credit Exposure (continued)

11. Credit Quality (continued)

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

31 December 2022:

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
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	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
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	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
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	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
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)

1. Credit Risk (continued)

A. Credit Exposure (continued)

11. Credit Quality (continued)

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Investment in FVTPL				
High Grade	717	-	-	717
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Non-performing	-	-	-	-
Total	**717**	**-**	**-**	**717**

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

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
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	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
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	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
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**

Notes to the financial statement
For the year ended 31 December 2022

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

11. Credit Quality (continued)

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
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

31 December 2021:

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Debt investment securities at Amortised cost				
High Grade	324,150	-	-	324,150
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	324,150	-	-	324,150

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Acceptances at Amortised cost				
High Grade	53,286	133	-	53,419
Standard Grade	121,173	1,578	-	122,751
Satisfactory Grade	559	4,369	-	4,928
Total	175,018	6,080	-	181,098

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Loan commitments				
High Grade	100,725	40,469	-	141,194
Standard Grade	294,634	74,552	-	369,186
Satisfactory Grade	32,171	80,854	-	113,025
Total	427,530	195,875	-	623,405

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Letter of credit and guarantees*				
High Grade	101,863	6,282	-	108,145
Standard Grade	235,937	31,964	-	267,901
Satisfactory Grade	125,645	60,386	-	186,031
Non-performing	-	-	7,148	7,148
Total	463,445	98,632	7,148	569,225

* includes Corporate & SME , Retail and Banks

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

11. Credit Quality (continued)

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Accrued Interest/profit*				
High Grade	33,576	12,770	-	46,346
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Non-performing	-	-	54	54
Total	33,576	12,770	54	46,400

* includes Corporate & SME , Retail and Banks

12. 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 RO 000	Non-performing loans RO 000	Expected Credit Loss for Stage 1 & 2 Exposure RO 000	Expected Credit Loss for Stage 3 Exposure RO 000	Interest reserve RO 000	Expected Credit Loss during the year RO 000	Advances written off during the year 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**

Notes to the financial statement
For the year ended 31 December 2022

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

12. Distribution of impaired loans (continued)

	Performing loans RO 000	Non-performing loans RO 000	Expected Credit Loss for Stage 1 & 2 Exposure RO 000	Expected Credit Loss for Stage 3 Exposure RO 000	Interest reserve RO 000	Expected Credit Loss during the year RO 000	Advances written off during the year RO 000
31 December 2021							
Import trade	112,921	7,996	1,781	2,248	1,065	1,364	91
Export trade	8,093	7	94	3	4		-
Wholesale/ retail trade	106,860	9,575	3,558	4,168	1,662	663	266
Mining and quarrying	106,491	16	3,149	5	11	1	-
Construction	361,177	82,541	11,357	34,380	12,475	8,736	1,536
Manufacturing	281,947	3,814	3,045	1,322	144	1,201	443
Electricity, gas and water	197,629	-	1,042	-	-		-
Transport and communication	59,733	256	766	125	74	160	363
Financial institutions	189,264	-	888	-	-		-
Services	369,527	2,102	8,970	808	601	232	61
Personal loans	1,200,010	60,384	11,081	32,859	12,136	11,808	3,299
Agriculture and allied activities	18,211	11	131	5	6		-
Government	147,324	-	152	-	-		-
Non-resident lending	251	-	-	-	-		-
Others	174,731	12,951	8,932	3,655	1,939	486	370
	3,334,169	179,653	54,946	79,578	30,117	24,651	6,429

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

12. Distribution of impaired loans (continued)

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

	Exposure to Stage 1 & 2 RO 000	Exposure to Stage 3 RO 000	Stage 1 & 2 ECL RO 000	Stage 3 `ECL RO 000	Interest reserve RO 000	Stage 3 ECL during the year RO 000	Advances written off during the year RO 000
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**
31 December 2021							
Sultanate of Oman	3,333,918	179,653	54,946	79,578	30,117	24,651	6,429
Other countries	251	-	-	-	-	-	-
	3,334,169	179,653	54,946	79,578	30,117	24,651	6,429

Analysis of impairment and collateral

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

	2022 RO'000	2021 RO'000
Against individually impaired		
Property	**69,833**	71,038
Others	**440**	850
	70,323	71,888

The Bank has a financial asset of RO 88.70 million (2021: RO 68.75 million) of impaired assets 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.

32. Financial risk management (continued)

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 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
31 December 2022						
Cash and balances with Central Bank of Oman	176,117	-	-	-	500	176,617
Loan and advances to customer	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	2,002,787	1,042,178	490,644	861,196	240,444	-
Cumulative Gap	2,002,787	3,044,965	3,535,609	4,396,805	4,637,249	-

32. Financial risk management (continued)

B. Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

	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
31 December 2021						
Cash and balances with Central Bank of Oman	250,979	-	-	-	500	251,479
Loan and advances to customer	169,023	507,969	171,014	762,567	1,735,650	3,346,223
Loans and advances to banks	46,223	56,552	22,323	-	-	125,098
Investments FVTPL	-	-	-	-	2,823	2,823
Investments FVOCI Debt Instrument	-	-	10	89,628	27,115	116,753
Investments FVOCI-Equity	-	-	-	-	2,490	2,490
Investments at amortized cost	-	-	-	213,935	110,215	324,150
Other assets	46,399	-	181,098	-	18,290	245,787
Total Assets Funded	**512,624**	**564,521**	**374,445**	**1,066,130**	**1,897,083**	**4,414,803**
Spot and Forward Purchases (notional value)	472,119	731,465	154,973	120,537	-	1,479,094
Total Assets Funded and Non Funded	**984,743**	**1,295,986**	**529,418**	**1,186,667**	**1,897,083**	**5,893,897**
Future Interest cash inflows	15,439	70,126	70,623	415,065	331,237	902,490
Due to banks	119,009	201,355	9,625	130,900	-	460,889
Deposits from customers	274,992	679,501	554,497	861,068	605,581	2,975,639
Other liabilities	66,185	9973	181,649	5,515	5,417	268,739
Subordinated loans	-	-	-	35,000	-	35,000
Total liabilities	**460,186**	**890,829**	**745,771**	**1,032,483**	**610,998**	**3,740,267**
Spot and Forward Purchases (notional value)	470,398	730,512	154,707	119,350	-	1,474,967
Loan commitments	623,405	-	-	-	-	623,405
Letter of credit	68,983	-	-	-	-	68,983
Guarantees and performance bonds	500,242	-	-	-	-	500,242
Total Liabilities Funded and Non Funded	**2,123,214**	**1,621,341**	**900,478**	**1,151,833**	**610,998**	**6,407,864**
Future Interest cash outflows	4,823	53,749	43,590	142,112	620,832	865,106
Cumulative Liabilities	2,123,214	3,744,555	4,645,033	5,796,866	6,407,864	-
Gap	1,138,471	325,355	371,060	(34,834)	(1,286,085)	-
Cumulative Gap	1,138,471	1,463,826	1,834,886	1,800,052	513,967	-

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 2022, with LCR of 107.71% (2021: 123.54%).

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 2022, with a NSFR of 107.95% (2021: 109.24%).

C. Market risk

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

1. 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

	2022 RO'000	2021 RO'000
Net assets denominated in US Dollars	**47,815**	36,562
Net assets denominated in UAE Dirham (AED)	**1,934**	750
Net assets denominated in other foreign currencies	**3,363**	1,235
	53,112	38,547

2. 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)

2. Interest rate risk (continued)

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

	+ or – 1%		+ or – 2%	
	2022 RO '000	2021 RO '000	2022 RO '000	2021 RO '000
Omani Rials	**4,419**	5,513	**8,839**	11,027
US Dollars	**4,179**	3,855	**8,357**	7,711
Others currencies	**214**	26	**428**	52
	8,812	9,394	**17,624**	18,790

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%	
	2022 RO '000	2021 RO '000	2022 RO '000	2021 RO '000
Impact on Equity in absolute terms	**47,003**	42,273	**94,006**	84,545

Effect of IBOR reform

Reform and replacement of various inter-bank offered rates ('IBORs') has become a priority for regulators. Many IBOR rates stopped being published, while certain USD LIBOR rates would stop being published by 30 June 2023. The table below discloses amounts of non-derivative financial assets and liabilities and derivative contracts at 31 December 2022 those are linked with LIBOR. The table below discloses the exposures which are maturing before 30 June 2023 and after 30 June 2023. Exposures of the Bank are linked with three month LIBOR or 6 month LIBOR which will cease to publish on 30 June 2023.

For new contracts being entered, the Bank is working with its customers and other counterparties, such as international financial institutions to perform a transition of legacy IBOR-based financial instruments to alternative benchmark interest rates and develop new financial products for its customers. The Bank is also enhancing its IT systems and internal processes to ensure smooth transition from IBOR to alternative benchmark interest rates.

32. Financial risk management (continued)

C. Market risk (continued)

2. Interest rate risk (continued)

Effect of IBOR reform (continued)

Outstanding as at 31 December 2022 RO'000	Non-derivative financial assets	Non-derivative financial liabilities	Derivatives nominal amount
Maturities before 30 June 2023			
USD one month LIBOR	-	-	-
USD three month LIBOR	-	-	-
USD six month LIBOR	-	3,411	-
Total	-	3,411	-
Maturities after 30 June 2023			
USD one month LIBOR	-	-	-
USD three month LIBOR	331,632	19,250	113,777
USD six month LIBOR	126,106	-	-
Total	454,738	19,250	113,777

Outstanding as at 31 December 2021 RO'000	Non-derivative financial assets	Non-derivative financial liabilities	Derivatives nominal amount
Maturities before 30 June 2023			
USD one month LIBOR	-	-	1,750
USD three month LIBOR	129,027	317,625	-
USD six month LIBOR	51,810	-	-
Total	180,837	317,625	1,750
Maturities after 30 June 2023			
USD one month LIBOR	5,834	-	-
USD three month LIBOR	285,682	-	124,517
USD six month LIBOR	159,232	15,400	-
Total	450,748	15,400	124,517

32. Financial risk management (continued)

C. Market risk (continued)

2. 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 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
31 December 2022								
Cash and balances with Central Bank of Oman	0.10%	-	-	-	-	-	176,617	176,617
Investments - FVTPL	-	-	-	-	-	-	717	717
Investment – FVOCI Equity	-	-	-	-	-	-	13,975	13,975
Investment FVOCI – Debt Instrument	6.17%	-	22,082	15,926	71,592	31,852	-	141,452
Investments at amortized cost	4.50%	3,867	36,014	10,014	186,798	76,585	-	313,278
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
Cumulative interest sensitivity 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	-

32. Financial risk management (continued)

C. Market risk (continued)

2. Interest rate risk

Interest rate sensitivity gap (continued)

	Effective average interest rate %	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
31 December 2021								
Cash and balances with Central Bank of Oman	0.1%	-	-	-	-	-	251,479	251,479
Investments - FVTPL		-	-	-	-	-	2,823	2,823
Investment – FVOCI Equity		-	-	-	-	-	2,490	2,490
Investment FVOCI – Debt Instrument	6.5%	-	10	-	89,628	27,115	-	116,753
Investments at amortized cost	4.8%	-	-	-	213,935	110,215	-	324,150
Loans, advances and financing to banks	2.7%	19,250	70,024	10,000	-	-	25,824	125,098
Loans, advances and financing to customers	5.4%	499,163	1,229,318	391,657	421,249	804,836	-	3,346,223
Other assets		-	-	181,098	-	-	64,689	245,787
Total assets		518,413	1,299,352	582,755	724,812	942,166	347,305	4,414,803
Due to banks	2.3%	147,610	287,980	9,625	15,400	-	274	460,889
Deposits from customers	3.2%	148,475	455,108	887,977	553,278	509,364	421,437	2,975,639
Other liabilities		-	-	181,098	-	-	87,641	268,739
Subordinated loan	6.2%	-	-	35,000	-	-	-	35,000
Total liabilities		296,085	743,088	1,113,700	568,678	509,364	509,352	3,740,267
On-balance sheet gap		222,327	556,264	(530,945)	156,134	432,802	(162,047)	-
Cumulative interest sensitivity gap		222,327	778,591	247,646	403,780	836,582	674,535	-

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

3. 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 0.338 million (2021: decrease by RO 0.098 million).

32. Financial risk management (continued)

C. Market risk (continued)

3. Investment Price risk (continued)

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 1.827 million (2021: decrease / increase by RO 2.007 million).

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 2022, 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.

32. Financial risk management (continued)

D. Operational risk (continued)

Business Continuity Planning (BCP) (continued)

- 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.

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.

32. Financial risk management (continued)

D. Operational risk (continued)

Internal Capital Adequacy Assessment Process (ICAAP): (continued)

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 October 2022, the additional Perpetual securities (AT1) of USD 300 Million were replaced with OMR 115.5 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 2022. 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.

33. Capital risk management (continued)

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2022 is 17.61% (2021: 17.74 %).

	2022 RO'000	2021 RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	**299,635**	299,635
Legal reserve	**67,955**	64,538
Share premium	**95,656**	95,656
Special reserve	**16,988**	16,988
Subordinated bonds and loan reserve	**-**	28,000
Retained earnings	**57,111**	22,930
CET I/Tier I Capital	**537,345**	527,747
Additional Tier I regulatory adjustments:	**-**	-
Deferred tax assets	**(6,127)**	(3,420)
Special revaluation reserve investment IFRS 9	**-**	-
Negative investment revaluation reserve	**(6,615)**	(5,627)
Total CET 1 capital	**524,603**	518,700
Additional Tier I capital (AT1)	**155,500**	155,500
Total Tier 1 Capital (T1=CET1+AT1)	**680,103**	674,200
TIER II CAPITAL		
Investment revaluation reserve	**1,006**	649
General provision	**34,226**	39,108
Subordinated loan	**-**	-
Total Tier II capital	**35,232**	39,757
Total eligible capital	**715,335**	713,957
Risk weighted assets		
Banking book	**3,744,350**	3,719,641
Trading book	**70,428**	64,345
Operational risk	**248,375**	240,038
Total	**4,063,153**	4,024,024
Total Tier 1 Capital (T1=CET1+AT1)	**680,103**	674,200
Tier II capital	**35,232**	39,757
Total regulatory capital	**715,335**	713,957
Common Equity Tier 1 ratio	**12.91%**	12.89%
Tier I capital ratio	**16.74%**	16.75%
Total capital ratio	**17.61%**	17.74%

The Bank has complied with all externally imposed capital requirements as at 31 December 2022 and 31 December 2021.

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 .

34. Segmental information (continued)

	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Islamic Banking RO'000	Intersegment RO'000	Total RO'000
At 31 December 2022						
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.

Notes to the financial statement
For the year ended 31 December 2022

34. Segmental information (continued)

	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
At 31 December 2021				
Segment operating revenues	68,591	106,791	31,338	206,720
Other revenues (net of commission expense)	7,151	9,596	7,276	24,023
Total	75,742	116,387	38,614	230,743
Interest, Islamic Window Deposit expenses	(28,764)	(57,450)	(18,083)	(104,297)
Net operating income	46,978	58,937	20,531	126,446
Segment cost				
Operating expenses including depreciation	(35,035)	(31,576)	(5,729)	(72,340)
Impairment for loans and investment net recoveries from allowance for loans impairment	(4,834)	(18,331)	(1,486)	(24,651)
Profit from operations after provision	7,109	9,030	13,316	29,455
Income tax expenses	(1,046)	(1,328)	(1,958)	(4,332)
Net profit for the year	6,063	7,702	11,358	25,123
Segment assets	1,418,703	2,601,875	588,461	4,609,039
Less: Allowance for expected credit losses	(56,123)	(112,723)	(1,407)	(170,253)
Total segment assets	1,362,580	2,489,152	587,054	4,438,786
Segment liabilities	832,353	2,351,371	546,146	3,729,870
Add: Allowance for expected credit losses	3	8,796	1,598	10,397
Segment liabilities	832,356	2,360,167	547,744	3,740,267

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 25 January 2023 proposed a total cash dividend of 5%, (5 (five) baizas per share, total of RO 14.982 million (2021: 2%; RO 5.993 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 22nd March 2023

During the year, unclaimed dividend amounting to Nil (2021: 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.

1. Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

36. Leases (continued)

	2022 RO'000	2021 RO'000
Right-of-use assets		
Leased Premises	**441**	816
Lease liabilities		
Current	**9**	-
Non-current	**348**	474
	357	474

Additions to the right-of-use assets during the 2022 financial year were RO 0.138 million (2021: RO 1.8 million).

2. Amounts recognised in the statement of comprehensive income

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

	2022 RO'000	2021 RO'000
Depreciation charge of right-of-use assets		
Leased Premises	**513**	655
Interest expense	**26**	33
Expense relating to short-term leases	**205**	2,168

The total cash outflow for leases in 2022 was RO 0.260 million (2021: RO 0.199 million).

3. The following table shows the maturity analysis of lease liabilities:

	2022 RO'000	2021 RO'000
More than 1 year	**367**	474

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.

4. 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.

36. Leases (continued)

4. The Bank's leasing activities and how these are accounted for (continued)

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.

5. 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.

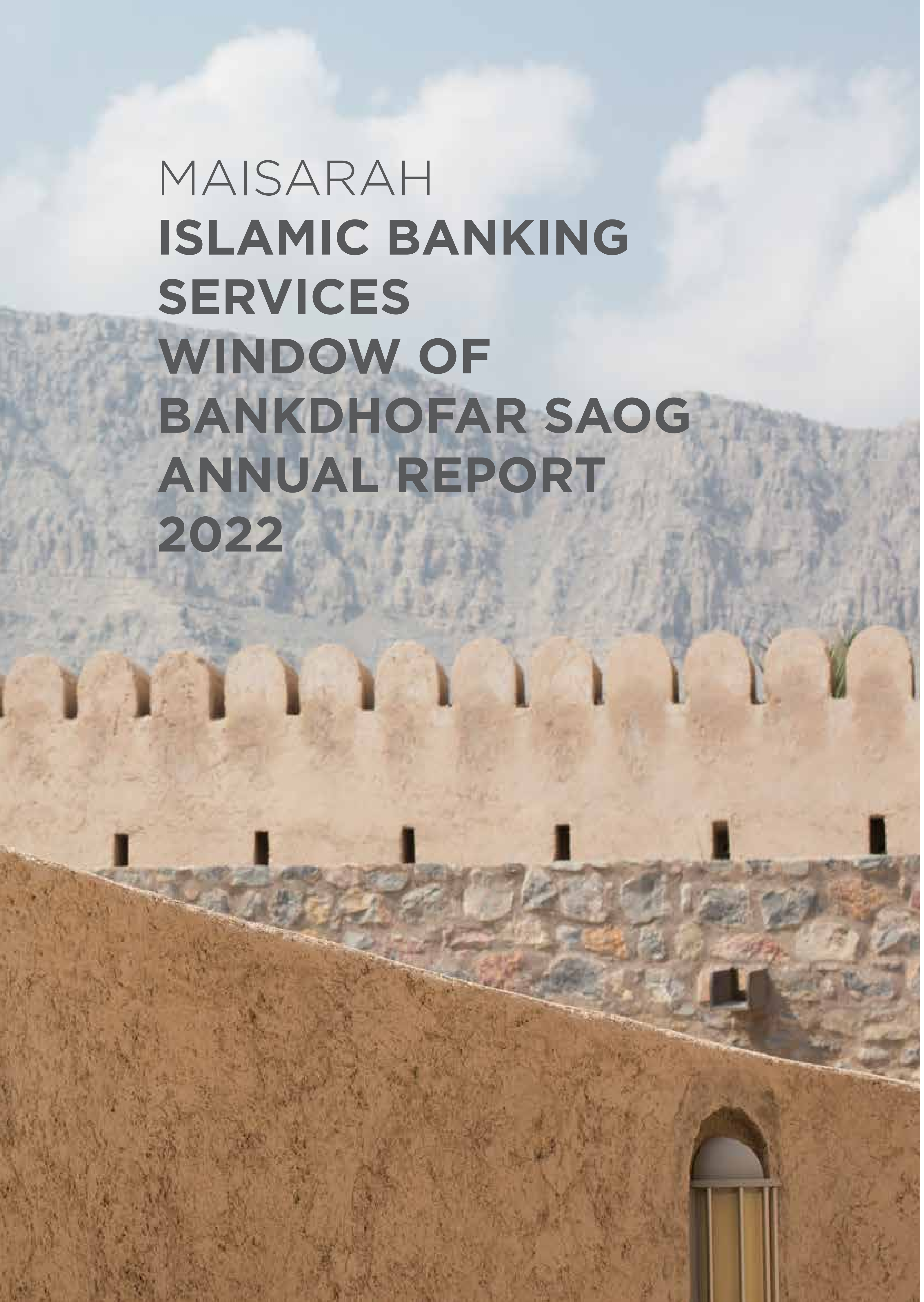
Critical judgements in determining the lease term

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.

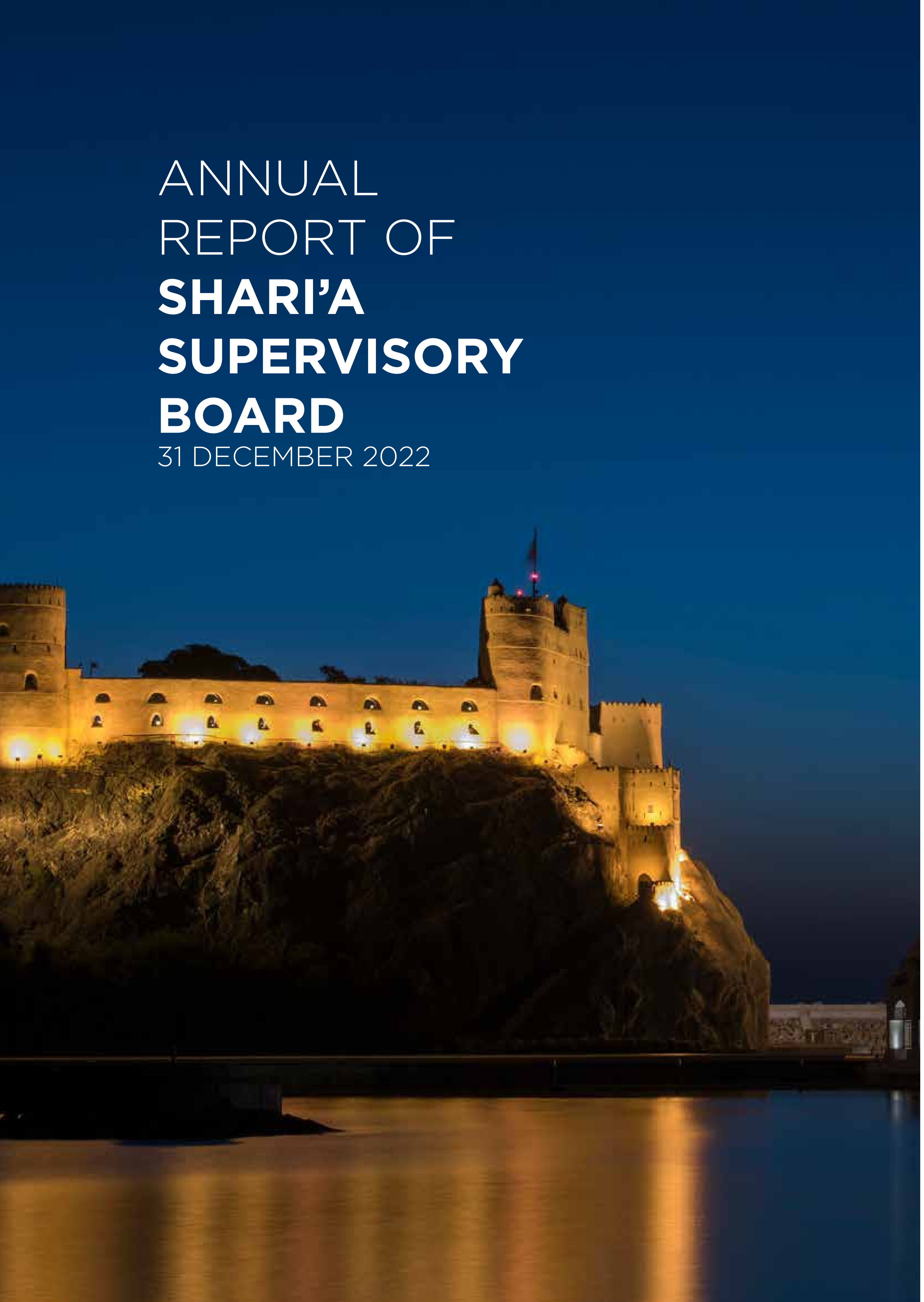
MAISARAH
ISLAMIC BANKING SERVICES WINDOW OF BANKDHOFAR SAOG ANNUAL REPORT 2022



MAISARAH
Islamic Banking Services

ANNUAL REPORT OF **SHARI'A SUPERVISORY BOARD**

31 DECEMBER 2022



Report of Shari'a Supervisory Board

To: General Assembly and Board of Directors of Maisarah Islamic Banking Services – Bank Dhofar (S.A.O.G)

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

All perfect praise be to Allah; and may Allah send blessing and peace upon the noblest of Messengers, our Prophet Muhammad, sallallahu 'alayhi wa sallam, his family and companions.

The current Sharia Supervisory Board is appointed in March 2022 and the previous Sharia Supervisory Board retired after completing its tenure.

In compliance with the letter of appointment, we are required to submit the following report for the year ended 31/12/2022:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Maisarah Islamic Banking Services (MIBS) during the year ended on 31/12/2022. We have also conducted our review to form an opinion as to whether the MIBS has complied with Sharia principles and also with the specific Fatawa, rulings and guidelines issued by SSB.

Maisarah's management is responsible for ensuring that the Maisarah conducts its business in accordance with Sharia principle. It is our responsibility to form an independent opinion, based on our review of the operations of Maisarah, and report to you.

We conducted our review which included examining, on a test basis, of each type of transaction, the relevant documentation and procedure adopted by Maisarah.

We planned and performed our review so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Maisarah has not violated Sharia principles.

In our opinion:

a) The affairs of Maisarah have been carried out in accordance with the rules and principles of Sharia, Central Bank's regulations and guidelines related to Sharia compliance and other rules as well as with specific Fatwa and rulings issued by the SSB from time to time.

b) The contacts, transactions and dealings entered into by the Maisarah during the year ended 2022 that we have reviewed are in compliance with Sharia principles and no profit was channeled to charity.

c) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Sharia principles.

d) Earnings that have been realized from sources or by means prohibited by Sharia principles have been identified and segregated for disposal to charity.

We have identified the following areas where we believe there is room for further improvement by the management of Maisarah in order to follow truly the letter and spirit of the Sharia and to enhance the public's confidence in Islamic banking in general and the Maisarah in particular:

a) Public awareness programs and seminars should be conducted to create awareness of Islamic banking.

b) For awareness of general public, we recommend to publish the SSB Fatwas in a booklet enabling public to read and understand the Islamic banking products and its basis.

c) As MIBS operations are expected to increase in 2023, therefore, management should further focus on ensuring highest standard of Sharia compliance.

d) The SSB advises MIBS to actively participate in Sharia compliant social and community activities to fulfill its corporate responsibilities.

We beg Allah the almighty to grant us all the success and straight-forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

Sheikh Abdullah bin Ali Al Shihri
Chairman

Sheikh Azzan bin Nasser Al Amri
Vice Chairman

Dr. Abdul Rub bin Salim Al Yafai
Member

Dr. Amin Fateh
Member

Sheikh Hilal bin Hassan Al Lawati
Member

Date: January 25, 2023
Place: Muscat, Sultanate of Oman

بسم الله الرحمن الرحيم

هيئة الرقابة الشرعية

SHARIA SUPERVISORY BOARD

To: General Assembly and Board of Directors of Maisarah Islamic Banking Services – Bank Dhofar (S.A.O.G)	**إلى: الجمعية العمومية ومجلس إدارة "ميسرة" للخدمات المصرفية الإسلامية – بنك ظفار (ش.م.ع.ع)**
Assalam Alaikum Wa Rahmat Allah Wa Barakatuh	السلام عليكم ورحمة الله وبركاته ،،،
All perfect praise be to Allah; and may Allah send blessing and peace upon the noblest of Messengers, our Prophet Muhammad, sallallahu 'alayhi wa sallam, his family and companions.	الحمد لله رب العالمين والصلاة والسلام على سيدنا محمد، وعلى آله وصحبه وسلم، وبعد:
The current Sharia Supervisory Board is appointed in March 2022 and the previous Sharia Supervisory Board retired after completing its tenure.	تم تعيين هيئة الرقابة الشرعية الحالية في مارس 2022م بعد ما تم انتهاء عضوية هيئة الرقابة الشرعية السابقة.
In compliance with the letter of appointment, we are required to submit the following report for the year ended 31/12/2022:	فإنه وفقاً لخطاب التعيين، يسعدنا أن نقدم لكم تقرير الرقابة والالتزام الشرعي للسنة المنتهية في 2022/12/31م:
We have reviewed the principles and the contracts relating to the transactions and applications introduced by Maisarah Islamic Banking Services (MIBS) during the year ended on 31/12/2022. We have also conducted our review to form an opinion as to whether the MIBS has complied with Sharia principles and also with the specific Fatawa, rulings and guidelines issued by SSB.	لقد قمنا بالإشراف والمراجعة الشرعية لعمليات وأنشطة ميسرة للخدمات المصرفية الإسلامية وقد شملت السياسات والعقود والمنتجات والمعاملات خلال السنة المنتهية 2022/12/31. وقد أجرينا المراجعة اللازمة حتى نتمكن من تكوين رأي مستقل عن ميسرة إذا كانت قد امتثلت لمبادئ الشريعة الإسلامية والفتاوى والأحكام والمبادئ التي أصدرتها هيئة الرقابة الشرعية الموقرة.
Maisarah's management is responsible for ensuring that the Maisarah conducts its business in accordance with Sharia principle. It is our responsibility to form an independent opinion, based on our review of the operations of Maisarah, and report to you.	هذا ولا بد من التوضيح بأن إدارة ميسرة مسؤولة بشكل كامل عن ضمان التزام ميسرة بمبادئ الشريعة الإسلامية في كل أنشطتها، ومسؤوليتنا هي تكوين رأي مستقل بناء على مراجعتنا لعمليات ميسرة، وتقديم تقرير لكم بذلك.
We conducted our review which included examining, on a test basis, of each type of transaction, the relevant documentation and procedure adopted by Maisarah.	لقد قمنا بالمراجعة والتي شملت فحص عينة من كل نوع من أنواع المعاملات، والوثائق والإجراءات ذات الصلة التي اعتمدتها ميسرة.
We planned and performed our review so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Maisarah has not violated Sharia principles.	لقد خططنا ونفذنا مراقبتنا بحيث يتسنى لنا الحصول على جميع المعلومات والإيضاحات التي نعتبرها ضرورية لتزويدنا بأدلة كافية تعطينا التأكيد الكافي بأن ميسرة لم تخالف مبادئ الشريعة الإسلامية.

Page **1** of 3

بسم الله الرحمن الرحيم

هيئة الرقابة الشرعية

SHARIA SUPERVISORY BOARD

In our opinion:	فإننا نرى أن:
a) The affairs of Maisarah have been carried out in accordance with the rules and principles of Sharia, Central Bank's regulations and guidelines related to Sharia compliance and other rules as well as with specific Fatwa and rulings issued by the SSB from time to time.	أ) أوضاع ميسرة تسير وفقا لأحكام ومبادئ الشريعة وإرشادات ولوائح البنك المركزي ذات العلاقة بالالتزام الشرعي وأية لوائح أخرى والفتاوى والأحكام الصادرة عن هيئة الرقابة الشرعية من حين لآخر.
b) The contacts, transactions and dealings entered into by the Maisarah during the year ended 2022 that we have reviewed are in compliance with Sharia principles and no profit was channeled to charity.	ب) العقود والصفقات والمعاملات التي أبرمتها ميسرة خلال السنة المنتهية 2022م والتي قمنا بمراجعتها هي متوافقة مع مبادئ الشريعة الإسلامية، ولم يجنب أي شيء من أرباحها.
c) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Sharia principles.	ج) توزيع الأرباح وتحميل الخسارة على حسابات الاستثمار يتفق مع الأساس الذي تم اعتماده من قبلنا وفقاً لمبادئ الشريعة الإسلامية.
d) Earnings that have been realized from sources or by means prohibited by Sharia principles have been identified and segregated for disposal to charity.	د) الأرباح التي تحققت من مصادر أو وسائل لم تتفق مع أحكام الشريعة الإسلامية تم تجنيبها وتحويلها إلى صندوق الخيرات.
We have identified the following areas where we believe there is room for further improvement by the management of Maisarah in order to follow truly the letter and spirit of the Sharia and to enhance the public's confidence in Islamic banking in general and the Maisarah in particular:	لقد حددنا المجالات التالية التي نعتقد بأنه من خلالها يكون لإدارة ميسرة دور مهم في تحسين وتطوير الالتزام بالشريعة الإسلامية الغراء روحاً ونصاً، ومن أجل تعزيز ثقة الجمهور في الصيرفة الإسلامية بشكل عام وميسرة على وجه الخصوص:
a) With the growing digitalization in financial industry we recommend MIBS to focus more on digitalization of products and processes wherever possible.	أ. في ظل نمو المعاملات المالية الرقمية في القطاع المالية، نحث ميسرة على استخدام المعاملات المالية الرقمية في منتجاتها وعملياتها حيثما أمكن.
b) Public awareness programs and seminars should be conducted to create awareness of Islamic banking.	ب. القيام بتنظيم برامج توعية عامة وندوات لنشر الوعي المصرفي الإسلامي بين مختلف أطراف المجتمع.

Page **2** of 3

بسم الله الرحمن الرحيم

هيئة الرقابة الشرعية

SHARIA SUPERVISORY BOARD

c) For awareness of general public, we recommend to publish the SSB Fatwas in a booklet enabling public to read and understand the Islamic banking products and its basis.	ج. للقيام بتوعية المجتمع، نحث على إصدار كتيب يشمل الفتاوى الصادرة عن هيئة الرقابة الشرعية وذلك لتسهيل فهم منتجات ومعاملات الصيرفة الإسلامية.
d) As MIBS operations are expected to increase in 2023, therefore, management should further focus on ensuring highest standard of Sharia compliance.	د. وحيث إن عمليات ميسرة يتوقع أن تكون في ازدياد خلال سنة 2023م فإن الهيئة توصي إدارة ميسرة بالاستمرار على الالتزام بأعلى معايير الالتزام الشرعي.
e) The SSB advises MIBS to actively participate in Sharia compliant social and community activities to fulfill its corporate responsibilities.	ه. هيئة الرقابة الشرعية تحث ميسرة على المشاركة في الأنشطة المجتمعية في ظل المسؤولية الاجتماعية وذلك بما يتوافق مع الشريعة الاسلامية.
We beg Allah the almighty to grant us all the success and straight-forwardness. Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.	نرجو من الله العلي القدير أن يسدد خطانا ويهدينا إلى ما يحب ويرضى. والسلام عليكم ورحمة الله وبركاته،،،

1. فضيلة الشيخ عبد الله بن علي بن أسلم الشحري، الرئيس
2. فضيلة الشيخ عزان بن ناصر بن فرفور العامري، نائب الرئيس
3. فضيلة الشيخ الدكتور عبد الرب بن سالم بن عبد الرب اليافعي، عضو
4. فضيلة الشيخ هلال بن حسن بن علي اللواتي، عضو
5. فضيلة الشيخ الدكتور أمين فاتح، عضو

Date: January 25, 2023
Place: Muscat, Sultanate of Oman

هيئة الرقابة الشرعية

ميسرة للخدمات المصرفية الإسلامية

الحمد لله رب العالمين، والصلاة والسلام على سيدنا محمد وعلى آله وصحبه أجمعين وبعد،،،

The Maisarah Islamic Banking Services Sharia Supervisory Board (the SSB) has been presented with the below described **Maisarah Priority Islamic Banking Services (Al Riadah)** for approval.	عرضت على هيئة الرقابة الشرعية لميسرة للخدمات المصرفية الإسلامية **الخدمات المصرفية الإسلامية المميزة (الريادة)** المذكورة أدناه للموافقة عليها.
Introduction: With the increasing number of receiving affluent clientele, we have decided upon introducing Priority Banking at Maisarah Islamic Banking Services. A highly innovative offering that is designed to meet customers' financial needs while complimenting their lifestyles. We understand customers' desire for a more personalized banking experience, where comfort, convenience, and prompt service are just the beginning. Our broad range of Shariah-Compliant products and services with outstanding features and benefits come together to create a unique proposition designed especially for the priority segment.	**المقدمة:** مع تزايد المنافسة والإبتكار والعروض ولمواكبة التغيرات، إرتأت ميسرة للخدمات المصرفية الإسلامية تقديم الخدمات المصرفية المميزة لفئة (الريادة) وهو شريحة الزبائن الأثرياء وأصحاب الدخل العالي والذين يشكلون أهميه قصوى لنا. حيث سيتم تقديم عروض مبتكرة تم تصميمها لتلبية الاحتياجات المالية لهذه الفئة من الزبائن والتي تتماشى مع أنماط حياتهم المتنوعة. نحن نقدر ونتفهم في ميسرة رغبة الزبائن في الحصول على تجربة مصرفية أكثر راحة وخصوصية وخدمة سريعة وعروض جاذبة حيث تركز منتجاتنا وخدماتنا المتوافقة مع الشريعة الإسلامية على عروض وميزات مخصصة لهذه الشريحة ذات الأولوية.
Objective: To launch a new segment and streamline the current segmentation structure in line with transformation and business requirements.	**الهدف:** إطلاق شريحة جديدة وتبسيط هيكل التجزئة الحالي بما يتماشى مع متطلبات التحول والأعمال.
Our affluent clientele can avail of our range of privileges by adhering to the following terms and conditions:	يمكن لزبائننا من أصحاب الدخل العالي الاستفادة من مجموعة الامتيازات الخاصة بالريادة من خلال الالتزام بالشروط والأحكام التالية:
1- **The Brand:** has been selected as **(Al Riadah Priority Islamic banking)** to differentiate our banking value proposition in the market.	**1. العلامة التجارية:** تم اختيار (الريادة المصرفية الإسلامية ذات الأولوية) لتمييز عروضنا القيمة في السوق.
2- **Building a stronger relationship:** New debit & credit cards will introduce a world of privileges and comfort. The customer will enjoy the most rewarding offers on dining, travel, entertainment, and shopping across the country in a Shariah-compliant manner.	2. **بناء علاقة أقوى:** ستقدم بطاقات الخصم والإئتمان الجديدة عالماً من الامتيازات. سيستمتع الزبون بأفضل الخصومات والعروض على الطعام والسفر والترفيه والتسوق بطريقة متوافقة مع الشريعة الإسلامية.
3- **Privileged Terms:** As long as the customer will be maintaining their current balance and outstanding, we will continue to offer and enhance extra privileged terms (lower pricing & higher benefits) on selected products and services that are going to be communicated through various bank channels.	**3. الشروط المميزة:** طالما أن الزبون سيحتفظ برصيده الحالي والمستحق، فسوف نستمر في تقديم وتعزيز شروط مميزة إضافية (أسعار أقل ومزايا أعلى) على منتجات وخدمات مختارة سيتم إيصالها من خلال القنوات البنك المختلفة.
4- **Eligibility Criteria:** It is based on the key component of either having a saving account balance above RO.	**4. معايير الأهلية:** وهي تستند إلى المكون الرئيسي المتمثل في وجود رصيد في حساب التوفير يزيد عن 30,000 ريال عماني / - أو راتب

30,000/- or a salary of RO. 3,000/- or Fixed/Term Deposit of RO. 100,000. The above-mentioned criteria are for the initial launch phase, which can be changed based on the customer response, analysis of the result and market dynamics.

قدره 3,000 ريال عماني أو وديعة ثابتة / لأجل بمبلغ 100,000 ريال عماني. المعايير المذكورة أعلاه هي لمرحلة الإطلاق الأولية ، والتي يمكن تغييرها بناءً على استجابة العميل ، وتقييم النتائج وتحليل السوق.

5- **Upgrading the Customer:** The customers who are meeting Al Riadah Priority Islamic Banking's criteria will be communicated with regards to the features and packages. The interested customers opting for priority banking will sign the upgrade form. Based on that, they will be upgraded and offered the priority-banking package. (The form will mention the terms and conditions of the Priority Banking Proposition).

5. ترقية العميل: سيتم تحديد الزبائن الذين يستوفون معايير الخدمات المصرفية الإسلامية المميزة (الريادة) والتي تستحق هذه النوعية المخصصة من الميزات والحزم.
وعليه فإن الزبائن المؤهلين الذين يختارون الخدمات المصرفية الإسلامية المميزة (الريادة) سيوقعون على نموذج الترقية.
وبناءً على ذلك ، سيتم ترقيتهم وإصدار حزمة الخدمات المصرفية لفئة ريادة (سيذكر النموذج شروط وأحكام عرض الخدمات المصرفية المميز).

6- **Downgrading the Customer:** The Priority Banking customers who are not meeting the threshold can have the freedom to opt out of this segment and no charges will be applied. However, if they still want to avail these services they have to pay additional monthly charges of up to RO 20 which will be included as part of Terms and Conditions document to be signed by the customer.

6. تخفيض تصنيف العميل: يمكن لزبائن الخدمات المصرفية الإسلامية (الريادة) الذين لا يستوفون الحد الأدنى أن يتمتعوا بحرية إلغاء الاشتراك من هذه الفئة ولن يتم تطبيق أي رسوم.
أما إذا كانوا لا يزالون يرغبون في الاستفادة من هذه الخدمات، فعليهم دفع رسوم شهرية إضافية تصل إلى 20 ريال عماني والتي سيتم تضمينها كجزء من وثيقة الشروط والأحكام التي سيتم توقيعها من قبل الزبون.

7- **The features offered by the Segment:**

A. Assignment of dedicated Relationship Manager
B. Prioritization in the branches and application processing
C. Special Debit card and Credit card.
D. Higher Withdrawal Limit on Debit Cards
E. Higher Discounts at selected merchants as part of Loyalty Services
F. Personalized services like gifts on special occasions
G. Waiver on basic banking charges like debit and credit card annual fees
H. Personalized cheque book
I. Invitation to special events
J. Dedicated contact center

7. الميزات التي تقدمها الشريحة:

أ. تعيين مدير علاقات مخصص
ب. تحديد الأولويات في الفروع ومعالجة الطلبات
ج. بطاقة الخصم وبطاقة الائتمان الخاصة
د. حد أعلى لسحوبات بطاقات الخصم
ه. خصومات أعلى لدى التجار المختارين كجزء من خدمات الولاء
و. خدمات شخصية مثل الهدايا في المناسبات الخاصة
ز. الإعفاء بين فترات مختلفة من بعض الرسوم المصرفية الأساسية مثل الرسوم السنوية لبطاقات الخصم والائتمان في تلك السنة المالية
ح. دفتر شيكات شخصي
ط. دعوة للمناسبات الخاصة
ي. مركز اتصال مخصص

8- **Associated risks and mitigation of the segment :**

A. The segment will be introduced once the required CBO and Shariah approval in place. All features of the segment will abide by the

8. المخاطر المصاحبة وتخفيفها للقطاع:

أ. سيتم تقديم هذه الشريحة بمجرد اعتماد البنك المركزي العماني والموافقة الشرعية. ستلتزم جميع ميزات الشريحة بالمتطلبات التنظيمية للإطلاق وعلى أساس مستمر.

Page **2** of **4**

regulatory requirements for the launch and ongoing basis.
B. The entire Proposition is reviewed and approved by the Bank's Shariah Supervisory Board.
C. The activities and the services provided by this segment have no impact on normal customer's services.
D. Priority Banking is a segment, hence all the existing approved products will be offered to the customers.

ب. تمت مراجعة العرض بالكامل والموافقة عليه من قبل هيئة الرقابة الشرعية للبنك.
ج. الأنشطة والخدمات التي تقدمها هذه الشريحة ليس لها أي تأثير على خدمات الزبائن العادية.
د. الخدمات المصرفية المميزة هي شريحة ، وبالتالي سيتم تقديم جميع المنتجات المعتمدة الحالية للزبائن.

9- **Accounting and Reporting Requirements:**

9. متطلبات المحاسبة والتقارير:

A. Reporting:

Since Priority Banking is the segment and not a product, there will not be any separate accounting entries for the segment and the same entries for the normal products will be used. The customers belonging to the particular segment will be identified via the ranking system in the bank's internal core banking system.
The proposed segment will have established reporting standards in line with the CBO's guidelines and requirements.

أ. التقارير:

نظرًا لأن الخدمات المصرفية المميزة (الريادة) هي شريحة وليست منتجًا، فلن يكون هناك أي إدخالات محاسبية منفصلة للشريحة وسيتم استخدام نفس الإدخالات للمنتجات العادية.
سيتم تحديد الزبائن الذين ينتمون إلى هذه الفئة من خلال نظام التصنيف في النظام المصرفي الأساسي الداخلي للبنك.
وستكون الشريحة المقترحة قد وضعت معايير إعداد التقارير بما يتماشى مع إرشادات ومتطلبات البنك المركزي العماني.

B. Disclosures :

All aspects of IBRF section 9.8.5- General Qualitative and Quantitative disclosures will be adhered to upon the time of account opening. The customer will be provided with a brochure mentioning the segment features and the underlying charges, fee waivers etc. The same information will be available over the bank's website. Maisarah has established internal policies and procedures on disclosure of information to its customers. Maisarah will disclose to its customer's fair, accurate, clear and timely information to enable them to make an informed decision as per the existing practices, any change in the pricing or charges will be communicated to the customers via different channels. The bank will adhere to all the legal, compliance and prudential regulations for the segment on an ongoing basis.

ب. الإفصاحات:

سيتم الالتزام بجميع جوانب القسم 9.8.5- الإفصاحات الكمية والنوعية العامة في وقت فتح الحساب.
سيتم تزويد الزبون بكتيب يشير إلى ميزات الشريحة والرسوم الأساسية وإعفاءات الرسوم وما إلى ذلك ، وستتوفر نفس المعلومات على موقع البنك الإلكتروني ، وقد وضعت ميسرة سياسات وإجراءات داخلية بشأن الإفصاح عن المعلومات لزبائنها.
سوف تفصح ميسرة لزبائنها عن معلومات عادلة ودقيقة وواضحة وفي الوقت المناسب لتمكينهم من اتخاذ قرار مستنير وفقًا للممارسات الحالية ، وسيتم إبلاغ الزبائن بأي تغيير في الأسعار أو الرسوم عبر قنوات البنك المختلفة ووفقا للوائح القانونية والامتثالية والاحترازية للقطاع على أساس مستمر.

Page **3** of **4**

MAISARAH

Sharia Supervisory Board Resolution:

قرار هيئة الرقابة الشرعية:

The Sharia Supervisory Board having reviewed the details of **Maisarah Priority Islamic Banking Services (Al Riadah)** as per the above is of the view that the subject **Maisarah Priority Islamic Banking Services (Al Riadah)** is in conformity with the provisions of Islamic Sharia.

راجعت هيئة الرقابة الشرعية تفاصيل **الخدمات المصرفية الإسلامية المميزة (الريادة)** المذكورة أعلاه ، ورأت بأن **الخدمات المصرفية الإسلامية المميزة (الريادة)** تتوافق مع أحكام الشريعة الإسلامية.

We seek Allah guidance and Allah knows the best.

نسأل الله تعالى التوفيق والله أعلم.

فضيلة الشيخ عبد الله بن علي بن أسلم الشحري، رئيس الهيئة

فضيلة الشيخ عزان بن ناصر بن فرفور العامري، نائب الرئيس

فضيلة الشيخ الدكتور عبد الرب بن سالم بن عبد الرب اليافعي، عضواً

فضيلة الشيخ الدكتور أمين فاتح، عضواً

فضيلة الشيخ هلال بن حسن بن علي اللواتي، عضواً

Date: December 08, 2022

هيئة الرقابة الشرعية

ميسرة للخدمات المصرفية الإسلامية

MAISARAH

الحمد لله رب العالمين والصلاة والسلام على سيدنا محمد وعلى آله وصحبه أجمعين وبعد،،،

Management Query to Sharia Supervisory Board for seeking guidance/opinion with regard to financing land under Diminishing Musharaka (DM)/Ijarah.	**استفسار من إدارة ميسرة لأخذ توجيه / رأي هيئة الرقابة الشرعية عن تمويل شراء الأراضي عن طريق مشاركة متناقصة/ إجارة.**
Central Bank of Oman (CBO) in its last examination report issued in March 2022 booked the following observation on Maisarah Islamic Banking Services (MIBS) with regard to financing of land. The report stipulate "the MIBS had been financing purchase of empty land though there was no usufruct out of the empty land (IBRF Title 1 Article 9.1.9.1)"	دون البنك المركزي في تقريره الأخير الصادر في مارس 2022م، بعض الملاحظات على ميسرة للخدمات المصرفية الإسلامية والتي تتعلق بتمويل الأراضي غير المبنية (أراضي فضاء) ذكر التقرير الصادر من قبل بنك المركزي العماني أن ميسرة للخدمات المصرفية الإسلامية كانت توفر تسهيلات لشراء أرض غير مبنية (أراضي فضاء) حيث لا يوجد أي نفع في الأراضي غير المبنية (فضاء) كما هو منصوص في الإطار التنظيمي والرقابي للأعمال المصرفية الإسلامية الباب 1 المادة 9.1.9.1.
MIBS would like to seek SSB guidance/opinion on the above matter with respect to financing the purchase of land under Diminishing Musharaka/Ijarah.	تطلب ميسرة للخدمات المصرفية الإسلامية من هيئة الرقابة الشرعية التوجيه/ رأي حول الموضوع أعلاه والتي تتعلق بتمويل الأراضي عن طريق المشاركة المتناقصة/ إجارة.
MIBS would like to request SSB to consider the following points with respect to purpose/usufruct of land in Sultanate of Oman.	تود ميسرة أن تبلغ هيئة الرقابة الشرعية النقاط التالية والتي توضح أهداف ومنافع الأراضي في سلطنة عمان.
1. Ministry of Housing has defined the purpose/usufruct of every land in Sultanate of Oman for Example: Residential, Commercial, agricultural etc. Hence, the usufruct of the land is available.	1. تقوم وزارة الإسكان والتخطيط العمراني بتخطيط وتوزيع أراضي في سلطنة عمان حيث وضحت الوزارة أهداف ومنافع الأراضي. على سبيل المثال: عرفت الوزارة أن الأراضي السكنية هدفها والنفع والغرض منها هو السكن، والأراضي التجارية هدفها والنفع والغرض منها هو التجارة وكذا الأراضي الصناعية وغيرها من أنواع الأراضي.
2. As intended, usufruct of land is available to customer after jointly purchasing the land with MIBS. MIBS can rent the land to customer; customer can immediately start using the land for the intended purposes as defined by the Ministry of Housing without any restriction from MIBS side.	2. كما هو معلوم أن الأراضي غير المبنية (فضاء) لها أهداف ومنافع حيث تقوم ميسرة بشراء تلك الأراضي وذلك مع مشاركة العميل ومن ثم تقوم بتأجير حصتها للعميل، وللعميل الحرية في بناء الأرض حسب نوع ومنفعة الأرض التي تم وصفها من قبل وزارة الإسكان والتخطيط العمراني دون تدخل ميسرة في هذا الأمر.
3. If customer is not constructing the land by its own will, MIBS still has the right to charge the rent from the customer as the land still has purpose/usufruct.	3. في حال عدم قيام العميل ببناء الأرض فهذا لا يمنع ميسرة للخدمات المصرفية الإسلامية بتسلم مبلغ الإيجار من العميل.

MAISARAH

4. It is worth mentioning that the underlying asset of the Government of Oman Ijarah Sukuk is land.	4. الجدير بالذكر أن حكومة سلطنة عمان قامت بإصدار صكوك إجارة وأصول الإجارة كانت أرض فضاء.
SHARIA SUPERVISORY BOARD GUIDANCE/ OPINION: According to Sharia Supervisory Board of Maisarah, the permissibility of renting empty land as long as it can be used for any purpose is well established concept in traditional Fiqh Books. Ibn Abbas the companion of Prophet Mohammed (PBUH) narrated, "The best thing you are doing is that you rent empty land from year to year". Furthermore, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) On Ijarah Muntahia Bittamleek Standard No. (9) Had permitted to lease/rent any asset that has usufruct. Since land has usufruct as stated by Ibn Abbas and as defined by Ministry of Finance. Therefore, Sharia Supervisory Board has no objection that Maisarah can continue to finance land under DM/ Ijarah as the purpose/usufruct of land has been already known and defined.	**توجيه / رأى هيئة الرقابة الشرعية:** عليه، ترى هيئة الرقابة الشرعية جواز تأجير الأراضي البيضاء ما دام يمكن الانتفاع بها بأي وجه من وجوه الانتفاع وهذا الرأي لم تتفرد به الهيئة الشرعية لميسرة بل هو مقتضى قول ابن عباس: " إن أمثل ما أنتم صانعون أن تستأجروا الأرض البيضاء من السنة إلى السنة". والمنفعة هنا من استئجار الأرض البيضاء هو القيام بزراعتها، فهي منفعة مستقبلية تتحقق بعد استئجار الأرض البيضاء. وقد اختار القول بالجواز كثير من العلماء كما هو مذكور في الكتب الفقهية. كما أن هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية في معيارها الإجارة المنتهية بالتمليك رقم (9) قد ذهبت إلى جواز تأجير اي أصل ما دام يمكن الانتفاع به ويدخل في هذا الأرض البيضاء لأنه يمكن الانتفاع بها بوجه من وجوه الانتفاع. وعليه، تجيز هيئة الرقابة الشرعية استمرار ميسرة في عملية تمويل الأراضي البيضاء (الفضاء) عن طريق المشاركة المتناقصة أو الإجارة وذلك كما تبين هدفها ونفعها.
We seek Allah guidance and Allah knows the best.	نسأل الله تعالى التوفيق والله أعلم بالصواب.

فضيلة الشيخ عبد الله بن علي بن أسلم الشحري، رئيس الهيئة

فضيلة الشيخ عزان بن ناصر بن فرفور العامري، نائب الرئيس

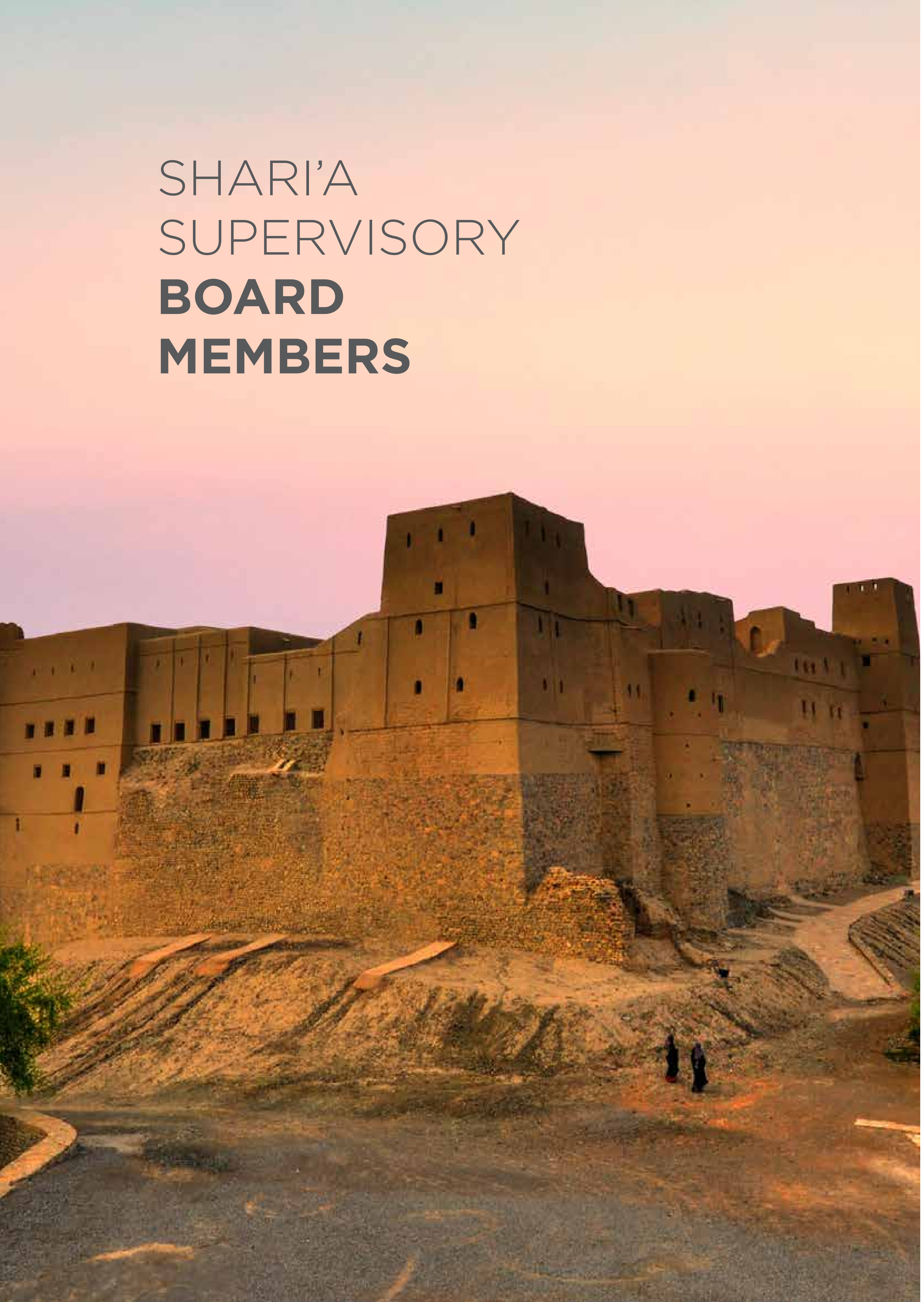
فضيلة الشيخ الدكتور عبد الرب بن سالم بن عبد الرب اليافعي، عضواً

فضيلة الشيخ الدكتور أمين فاتح، عضواً

فضيلة الشيخ هلال بن حسن بن علي اللواتي، عضواً

Page **2** of **2**

SHARI'A SUPERVISORY **BOARD MEMBERS**



THE BOARD OF **DIRECTORS**

Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab
Basis of Membership:
Chairman of Shari'a Supervisory Board
No. of other Directorships held: None

Sheikh Dr. Abdullah bin Mubarak Al Abri
Basis of Membership:
Member
No. of other Directorships held: None

Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan
Basis of Membership:
Member
No. of other Directorships held: None

Sheikh Dr. Mohammed bin Ali bin Mohmoud Al Lawati
Basis of Membership:
Member
No. of other Directorships held: None

Sheikh Dr. Mohammad Ameen Ali Qattan
Basis of Membership:
Member
No. of other Directorships held: None

MANAGEMENT **TEAM**

Kamal Uddin Hassan Abdullah Al Maraza
GM & Chief Maisarah Islamic Banking Officer

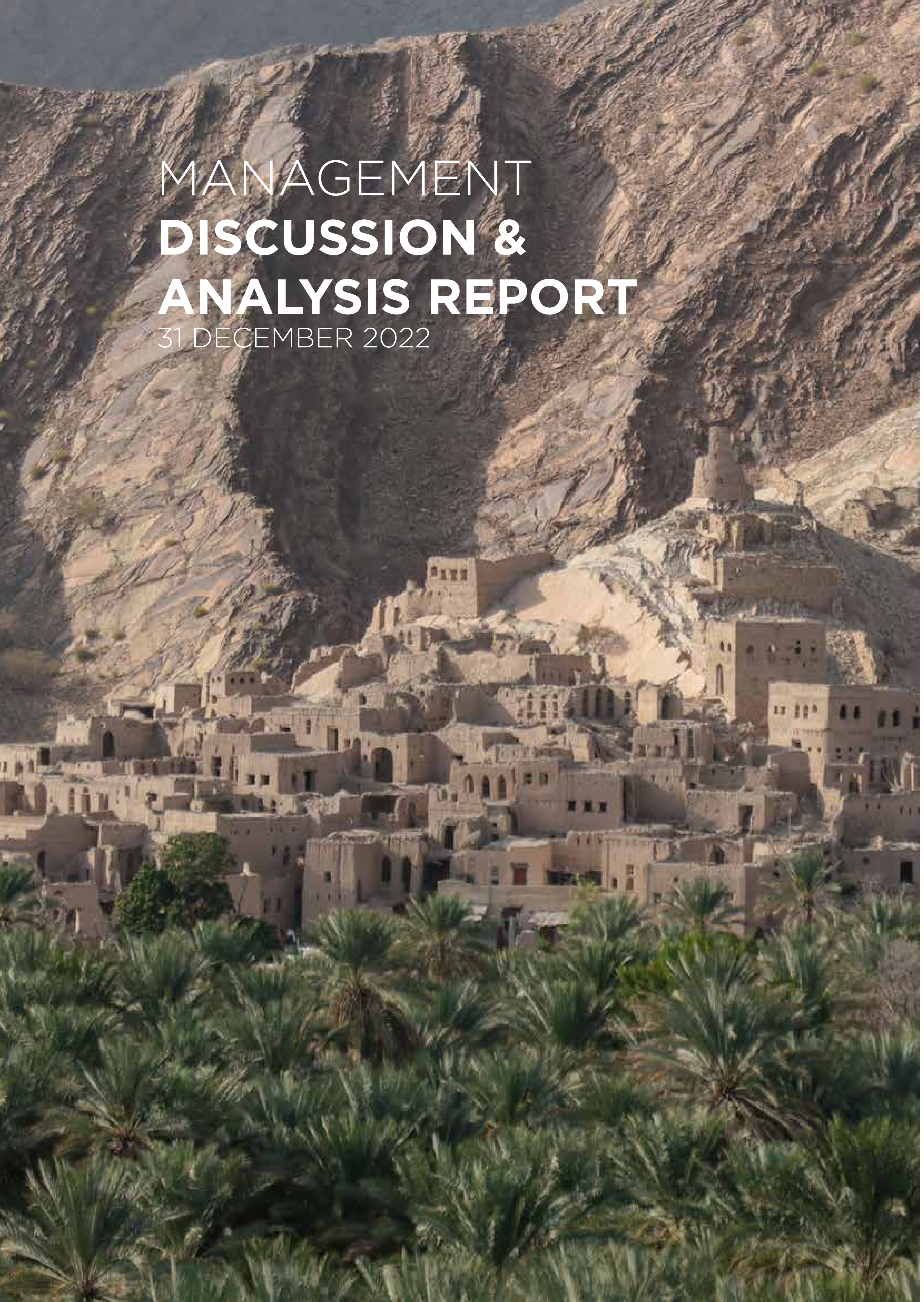
Amor Said Mohammed Al Amri
DGM Retail Banking

Fawaz Rajab Omar Al Ojaili
Head - MIBS Corporate Banking

Yahya Mohamed Ahmed Al Sharaiqi
Head - MIBS Treasury

Mohsin Shaik Bin Sehu Mohamed
Head of Investment Banking & Capital Market

Abdul Hakim bin Osman
Head Shari'ah Compliance & Audit



MANAGEMENT **DISCUSSION & ANALYSIS REPORT**
31 DECEMBER 2022

Maisarah Islamic Banking Services (MIBS)

Maisarah Islamic Banking Services, the Islamic banking window of Bank Dhofar launched in 2013, offers a comprehensive range of Shari'a compliant products and services, along with an excellent customer banking experience. Over the time, Maisarah has grown tremendously due to its visionary approach of fulfilling the long-term goals of its stakeholders along with its continued commitment to providing exceptional Islamic banking services to its customers. Maisarah started in 2013, now operates with a network of 10 branches strategically located across the Sultanate of Oman.

Maisarah Financial performance as of December 2022 is highlighted below:

Maisarah - Financial Performance

Maisarah Islamic Banking Services, the bank's Islamic Banking Window, as at 31 December 2022 showed significant growth in its key financial metrics. The gross income from financing, placement, and investment increased by 8.55% to RO 36.46 million as at 31 December 2022 from RO 33.59 million reported during the same period last year. The net financing income (after the cost of funds) as at 31 December 2022 increased by 11.08%, to RO 20.47 million as compared to RO 18.43 million reported at 31 December 2021. Maisarah's total revenue for the period ended December 2022 stood at RO 23.03 million compared to RO 20.14 million at December 2021, a growth of 14.35%.

Maisarah posted year to date operating profit (before ECL) of RO 11.59 million as at December 2022, which is 2.11% above the last year's December 2021 operating profit of RO 11.35 million. The cost-to-income ratio stands at 49.67% as at December 2022 as compared to last year's ratio of 43.64% as at December 2021.

Maisarah as at 31 December 2022, posted a profit before tax of RO 8.34 million compared to RO 8.92 million as of 31 December 2021, reflecting a drop of 6.50% over last year mainly due to higher ECL resulting from prudent measures taken by the bank during the year and the increase in cost sharing by HO due to change in accounting estimates*.

Particulars	RO in Million		
	2022	**2021**	**Growth %**
Gross Profit income	**36.46**	33.59	8.55%
Net Financing income (after profit expense)	**20.47**	18.43	11.08%
Fees, commissions & other income	**2.56**	1.71	49.59%
Total Operating Income	**23.03**	20.14	14.35%
Total operating costs	**(11.44)**	(8.79)	(30.15)%
Net operating profit / (loss)	**11.59**	11.35	2.11%
Impairment allowance	**(3.25)**	(2.43)	(33.74)%
Net profit / (loss) before tax	**8.34**	8.92	(6.50%)

*Had the same impact of change in accounting estimate for cost Sharing by HO with Maisarah applied last year, the profit before tax for the year ended 2021 would have been RO 6.78 million. Hence, the resulting growth in profit before tax in 2022 would be 23.01% over last year.

Maisarah gross financing portfolio has grown to RO 555.48 million at 31 December 2022 from RO 501.26 million at 31 December 2021, thus registering a growth of 10.82% over last year. The Sukuk investment portfolio stood at RO 93.13 million as at 31 December 2022 compared to RO 82.02 million as at 31 December 2021.

The total customer deposits of Maisarah reached RO 472.20 million as at 31 December 2022, registering a continuous growth of 8.05% compared to OMR 437.02 million at 31 December 2021. Maisarah's total assets stood at OMR 674.83 million at 31 December 2022 as compared to OMR 677.14 million as at 31 December 2021.

A brief analysis of Maisarah's diverse financing portfolio as at December 31, 2022 is as follows:

Particulars	RO in Million		
	2022	2021	Growth %
Murabaha & Other receivables	**18.00**	28.61	(37.08)%
Mudaraba financing	**9.44**	17.82	(47.03)%
Diminishing Musharaka financing	**387.60**	347.40	11.57%
Ijarah Muntahia Bittamleek	**63.40**	45.21	40.23%
Credit Card receivable	**0.82**	0.61	34.43%
Wakala Finance	**76.22**	61.61	23.71%
Gross Financing to customers	**555.48**	501.26	10.82%
Less: Allowance for impairment	**(14.44)**	(10.61)	36.10%
Net Financing	**541.04**	490.65	10.27%

Customer deposits of Maisarah as at December 31, 2022 comprises of the following:

Particulars	RO in Million		
	2022	2021	Growth %
Current accounts	**35.46**	22.79	55.59%
Equity of investment account holders	**54.14**	64.44	(15.98)%
Wakala Deposits	**382.60**	349.79	9.38%
Total customer deposits	**472.20**	437.02	8.05%

Maisarah Wholesale Banking

MIBS Corporate Banking now consists of 5 units (i.e. Large Corporate, Mid Corporate, SME, Government & Corporate Liabilities and Trade Finance, where each unit being managed by a dedicated teams of highly trained and qualified business professionals providing nationwide coverage. These dedicated teams of Islamic finance doyens for each business segment that offers banking solutions to corporate clients covering an array of innovative Sharia compliant products for working capital, term finance, project finance with added value of syndicates and structured finance, where to promote the international & local trade finance activities a dedicated Trade finance function is fully functional to provide the all the auxiliary services to MIBS business clientele

MIBS Corporate Banking offers a wide range of innovative Sharia-compliant products and financial solutions which are customized to suit the financial needs of clients operating in all sectors and segments. The Product offerings continue to be refined based on the ever-changing market conditions and to ensure convenience and ease of use. The existing clientele includes Public and Private Companies, Governments and Quasi-Governmental Entities, and High Net-worth Individuals. Some new products and services are lined up for launch during 2023 which will ensure MIBS Corporate Banking remains at the forefront of providing the best services to its clientele.

MIBS Corporate Banking continues to strengthen its market position and recorded strong performance during 2021 and 2022. Despite the prevailing economic challenges, the quality of the portfolio remains satisfactory with a strong focus on diversification. MIBS Corporate Banking continued to support its clients during the difficult period by continuing to work closely and providing financial support and advisory.

With the improvement in Oil Prices and the announcement of the Government Budget, MIBS Corporate Banking is optimistic that the economic scenario will start to show signs of recovery and the pandemic will be fully under control. For MIBS Corporate Banking, the year 2023 is a year filled with positivity to increase our presence where market fundamentals have start giving anticipation of stabilization, confidence to mark another strong year. MIBS Corporate Banking will continue to work closely with all existing and potential clients to partner with them during the upcoming phase of recovery and growth.

Maisarah Retail Banking Services

Maisarah Retail Banking Division offers a wide range of innovative Sharia-compliant products and financial solutions which are customized to suit the financial needs of the Priority, Affluent and Mass customer segments.

In 2022, Maisarah has achieved a sustained performance and focused on the following objectives:

1) Grew Retail Deposit Portfolio by 30% compared to 2021

2) Grew Retail Low-Cost Deposit by ==% compared to 2021

3) Grew and increased New-to-Bank Customers Accounts, Deposit Accounts above last year by 17%.

Looking back and considering the market and the overall economic environment, MIBS delivered a very strong performance across all business lines, this was due primarily to the dedication, devotion, and the commitment of all staff members within MIBS. The business plans to continue with the same drive and focus to deliver yet another successful year in 2023.

In 2023, MIBS Retail Banking focus will be as follows:

1) 1) New-To-Bank Customer Acquisition

2) Increase Low-Cost Deposit Portfolio, to reduce the cost of funding and improve financing yield

3) Prudently grow Financing Portfolio and protect market share

4) Implement Retail Innovation Programs and Projects

5) MIBS Distribution Network Expansion in all regions

Maisarah strives to provide the customers with a great and differentiated customer experience by focusing on their individual needs and delivering their needs in the most efficient and timely manner. To meet the needs of the growing customer base and market share, MIBS has many channels including Branches Distribution Network, Digital Banking and Channels (Internet, Mobile, Electronic Banking (ATMs/CDM), and Customer Engagement Hub. All designed to meet the growing and changing needs of the valued customers.

Through MIBS Innovation Journey, our vision is to meet the customers' needs anytime and anywhere 24/7, so they are fulfilling their banking needs at their convenience and their own way!

To spread the word and the awareness on Islamic banking, Maisarah will continue to double the efforts in the social media awareness programs, support events, conferences and programs and other public initiatives.

MIBS Distribution Network

Currently, Maisarah has a well-established and strategically located distribution network of 10 Branches across major cities and governorates in Muscat (Azaiba, Al Hail, Al Khuwair and Greater Muttrah) Salalah (New Salalah and Saada), Sohar, Birkat Al Mouz, Araqi, and Sur.

The distribution network provides a wide range of innovative shariah-compliant products, solutions and services to the valued customers across the nation. The Branches also play critical role of not only distributing needed products and services but also educating and promoting Shariah complaint banking. Considering the fact that Shariah-compliant banking products are fairly new to the country, MIBS teams in the distribution network are providing valuable education to promote this new banking to continue with drive to increase MIBS share of wallet in the coming years. This contributes in making Islamic banking, which is the fastest growing segment of the Omani banking sector, easily accessible and available to the potential customers in the country.

Therefore, considering the growth potential in the Islamic Banking sector, MIBS plans to grow its market and customer reach by increasing the current distribution network over the next few years based on the strategic priorities and market needs. This will include both physical distribution network of branches and service centers, and digital banking and channels.

Based on market needs, MIBS will continue to innovate its products and services offerings to exceed the customers' expectations by offering market leading solutions to continue selling through the existing customers by word-of-mouth and formal referrals, MIBS understands that customers are the foundation and corner-stone for the continued success.

MIBS will continue to innovate from the point of view of the customer and design the products and services and solutions based on market and segment needs and deliver great customer experience for the valued customers every time and at every touch point.

Investment Banking & Capital Markets

nvestment Banking and Capital Markets ("IBCM") focus, besides investments, is to create and distribute Shariah-compliant investment products in both equity and debt markets. The department provides comprehensive range of services such as financial advisory, corporate finance, deal structuring mainly in Sukuk and equity placements.

IBCM continues to strengthen its position in the Islamic capital markets and recorded strong performance in the year 2022.

Maisarah IBCM's proprietary investment performance remained strong throughout 2022. Despite an economic slowdown in the global market, sound investment decisions coupled with a recovery in oil prices have positioned Maisarah to take advantage of a recovering economy.

Looking ahead to 2023, the department is committed to expanding its investment portfolio with a focus on diversifying its investments, whilst navigating challenging global economic conditions.

The department continues to play important role in the growth of Maisarah and the Islamic capital markets in Oman.

Sharia Supervisory Board

Maisarah's Sharia Supervisory Board (SSB) is the highest authority in Maisarah to decide on Sharia-related matters. During the year the previous SSB members retired after successfully completing three consecutive terms (9 years) and new members of the SSB were appointed in-line with the CBO directives. The new SSB include the following:

S. NO.	Nam	Designation
1	Sheikh Abdullah bin Ali bin Aslam Al Shihri	Chairman, Sharia Supervisory Board
2	Sheikh Azzan bin Nasser bin Farfoor Al Amri	Deputy Chairman, Sharia Supervisory Board
3	Sheikh Dr. Abdul Rub bin Salim bin Abdul Rub Al Yafai	Member, Sharia Supervisory Board
4	Sheikh Dr. Amin Fateh	Member, Sharia Supervisory Board
5	Sheikh Hilal bin Hassan bin Ali Al Lawati	Member, Sharia Supervisory Board

SSB, with the aim of upholding the highest Sharia standards held 4 meetings during the year.

The SSB reviewed and approved all new products, services, policies, procedures, manuals, and amendments in the existing products and services to ensure ongoing Sharia compliance and supervisory guidance. The SSB has been fulfilling its responsibility of playing an important role in ensuring Sharia governance in line with CBO Islamic Banking Regulatory Framework (IBRF) and industry best practices with the help of Sharia Compliance and the Audit Department.

Sharia Compliance and Audit Department

A full-fledged Sharia Compliance and Audit department is working under the supervision of the Sharia Supervisory Board (SSB), in order to ensure that all the business operations conducted by Maisarah are in-line with the Sharia principles and as per the Sharia Governance framework mentioned in Islamic Banking Regulatory Framework (IBRF) of Central Bank of Oman comprises of Sharia Compliance Unit and Sharia Audit Unit.

To implement Sharia controls and ensure the highest standards of Sharia compliance, the Sharia Compliance and Audit department works closely with all departments and management within Maisarah to ensure all activities, operations, and transactions are conducted in accordance with Sharia rules, principles, and IBRF guidelines.

As a part of its role, the Sharia Compliance and Audit department monitors and audits all branches, business units and control functions of Maisarah. The service level agreements and profit distribution with BankDhofar are also reviewed and audited by the Sharia Compliance and Audit department.

Furthermore, Maisarah has entered into an engagement with an External Sharia Auditor that conducted a third-party independent Sharia audit and review to ensure the highest standards of Sharia compliance are maintained within Maisarah. The Sharia Compliance and Audit department is actively involved in Islamic banking and product-related training of staff, management and other stakeholders.

Maisarah Corporate Services

Maisarah Corporate Services group is composed of 2 departments under direct reporting namely 'Information Technology – Business Support, Islamic Compliance & Policy Implementation,' and 3 under dotted-line reporting being Central Operations, Digital Banking, and Credit Administration. These departments are further divided into units and are responsible to provide complete support to the business units and facilitate them not only in retaining the current business but to explore new business opportunities. The group is responsible to provide excellent services to help business in achieving their financial target without compromising on the regulatory and policy requirement.

As per the Bank's strategic plan, all the departments under corporate services work in cohesion and harmony to provide the utmost services to the front office departments to ensure fulfillment of the Bank vision of customer excellence and be more customer focused. In addition, MIBS Corporate Services continues to play a major role by expanding its scope of work in relieving all of the Branches, & Business units from backend functions, in process-optimization and automation.

Maisarah Corporate Services has committed to maintain high operational standards, ensuring in simplification of process, Monitoring Banks securities, and efficient use of resources. Maisarah Corporate Service Team believes in the vision of the Bank and have taken up the oath to fulfil the promise by providing superb service to help steer Maisarah Islamic Banking Services to the path of becoming one of the most recognizable Islamic Banks in the region.

Maisarah Central Operations

MIBS COD facilitates all operations of Maisarah to allow business units to offer the best and efficient services to customers, and continuously works on streamlining and re-engineering the processes to ensure that operational risks are minimized while enhancing the operational efficiencies to execute and process the transactions on day-to-day basis. Following was achieved during the year

1. Introduction of Signature PAD
2. Automation of Retail Account Opening
3. New CBO RTGS payment System Implementation
4. Direct Debit CBO system Implementation
5. Simplification of Corporate Account Opening
6. Introduction of New Reports
7. Review of core-banking system & process improvements related to central operations & branch operations.

Maisarah Digital Banking

Digital Banking department was established in 2021 as per Banks strategic vision. The department in a short span of time has played an important role in MIBS innovation journey by taking the products, services, and processes into the digital platform for automation and more efficient use of resources. For customer services, MIBS customer should no longer be restricted on transacting only at the branch. Digital-first is not just about being reactive; it is about being proactive in the way that helps the customers, who use a wide range of channels to seek out support. Mobile banking, social media, review social pages, forums, and communities are all now part of the customer service eco-system. Following was achieved during the year

1. Account Activation through CDM
2. Digital on boarding for Retail Customers
3. Rewards Program - Loyalty program for MIBS Channels.
4. New UI/UX in MIBS Channels
5. Self-Services Enhancement
    a. ATM enhancement
    b. CDM enhancement
    c. MFK Implementation
6. Credit Card Pin View
7. Credit Card Recovery Percentage change
8. Donation through MIBS CDM
9. Update Mobile Number through Maisarah ATM
10. Maisarah Cash Deposit through BD CDM

Maisarah Islamic Compliance & Policy Implementation

Maisarah Islamic Compliance & Policy Implementation Department (IC&PID) has achieved several milestones within this year to enhance customer services by delivering various key projects among many other initiatives. The department plays an important role in enabling Maisarah to continue its remarkable growth by building the state-of-the-art infrastructure and developing the organizational structure for future success, major projects delivered by IC&PID team are

1. Simplification of Various Products Legal Agreements
2. Automation of products legal agreements
3. Credit Automation
4. Digital Onboarding documentation and regulatory arrangement
5. RCCD
6. Digital Archiving
7. Establishing new Cost Sharing Methodology and revision of SLA's
8. E-IPO system
9. Review of Charters, Policies, Product Schemes, Instruction Manuals, Procedure Manuals, SOPs, Legal Agreements, CEO Circulars, Management Memos etc.
10. Issuing 100+ opinions/guidance on regulatory compliance matters pertaining to business and branches.

Maisarah Credit Administration

Maisarah Islamic Banking Services Credit department is a control-oriented department, where posting of the Islamic Financing Contracts are handled to safeguard Bank in the best possible way. The department ensures that the final process of the contract is carried out according to the Islamic Shari'ah guidelines, controlling, perfecting and the safekeeping documentation under prescribed policies and guidelines of Central Bank. The department also looks into adherence to the governing policies of the legal system and the commercial law of the country while processing the financing. Following are the major achievements by the department

1. Updated all customers data in the new CBO Mala'a system
2. Automation of various regulatory and management reports.
3. Processing Restructuring of Customers facilities as per the directives of CBO under COVID-19 Measures

DISCLOSURE REQUIREMENTS **UNDER PILLAR-III OF BASEL II & III**

pwc

The Board of Directors
Bank Dhofar SAOG
P.O Box 1507
Ruwi
Postal Code 112
Sultanate of Oman

Dear Sirs

Agreed-upon procedures report of factual findings to the Board of Directors of Bank Dhofar SAOG (the "Bank") in respect of Basel II - Pillar III and Basel III Disclosures of Maisarah Islamic Banking Services - Window (the "Disclosures") for the year ending 31 December 2022

Purpose of this Agreed-upon procedures report

This report is produced in accordance with the terms of our agreement dated 8 January 2023. The procedures, as set out in Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III were performed solely to assist the directors of the Bank in evaluating the Bank's compliance with the disclosure related requirements of the IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013 and letter BSD/CB/2020/005 dated 3 June 2020 and may not be suitable for another purpose.

Your responsibilities

The directors of the Bank have prepared the Disclosures in accordance with the Circulars as issued by the CBO and remain solely responsible for it and for the creation and maintenance of all accounting and other records supporting its contents. The Bank's directors are also responsible for identifying and ensuring that the Bank complies with the Disclosure requirements as set out in the Circulars as issued by the CBO.

You are responsible for determining that the scope of the services is sufficient for your purposes and have confirmed that the procedures described herein are appropriate for the purpose for which the services were engaged.

Our responsibilities

We have performed the procedures agreed with you as set out as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures of Maisarah Islamic Banking Services - Window (the Islamic window). The procedures, as set out in Article 10.1.2 of title 5 'Capital Adequacy' of the IBRF, were performed solely to assist you in evaluating the Islamic window of the Bank's compliance with the disclosure requirements set out in the IBRF issued by the CBO and Circular No. BM 1114 dated 17 November 2013 and letter BSD/CB/2020/005 dated 3 June 2020. Our work was performed in accordance with the International Standard on Related Services (ISRS) 4400 (Revised) 'Agreed-Upon procedures Engagements.'

An Agreed-upon procedures engagement involves performing the procedures that have been agreed with you, and reporting the findings, which are the factual results of the Agreed-upon procedures performed. We make no representation regarding the appropriateness of the Agreed-upon procedures.

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290, Commercial Register No. 1230865 Tax Card No 8055889

pwc

Agreed-upon procedures report of factual findings to the Board of Directors of Bank Dhofar SAOG (the "Bank") in respect of Basel II - Pillar III and Basel III Disclosures of Maisarah Islamic Banking Services - Window (the "Disclosures") for the year ending 31 December 2022 (continued)

Professional Ethics and Quality Management

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

Our firm applies the International Standard on Quality Management (ISQM) 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and findings

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures (the disclosures) of Maisarah Islamic Banking Services - Window (the Islamic window) of the Bank, set out on pages 1 to 45 as at and for the year ended 31 December 2022 .

Based on the above procedures performed no exceptions were noted.

Our procedures, as stated in our agreement, did not constitute an audit or assurance engagement made in accordance with generally accepted auditing or assurance standards, the objective of which would be the expression of assurance on the contents of the Disclosures. We do not express such assurance. Had we performed additional procedures or had we performed an audit or assurance engagement on the Disclosures, other matters might have come to our attention that we would have reported to you. This report relates only to the Disclosures and does not extend to any financial statements of the Bank taken as a whole.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of any financial statements of the Bank.

Restriction on distribution and use

This report is solely for your use in connection with the purpose specified above and as set out in our agreement and is not to be used for any other purpose. No part of this report is to be copied or distributed to any other party except as permitted under the terms of our agreement. We do not accept any liability or responsibility to any third party.

PricewaterhouseCoopers LLC
Muscat, Sultanate of Oman
2 March 2023

C.R. No 1230865
PricewaterhouseCoopers LLC

Maisarah Islamic Banking Services - window of BankDhofar SAOG
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2022

1. SCOPE OF APPLICATION

1.1. QUALITATIVE DISCLOSURE

1. Maisarah Islamic Banking Services (Maisarah) is an Islamic Window of Bank Dhofar SAOG (the Bank), established after obtaining license from the Central Bank of Oman (CBO). The principal activities of the Maisarah include accepting saving, investment accounts, providing Shari'a Compliant forms of financings as well as managing investor's money on the basis of Mudaraba or Wakala, providing commercial banking services and other investment activities.

2. A complete set of financial statements of Maisarah is included in the annual report of the Bank. The disclosures in this document have been prepared in accordance with the CBO requirements outlined in the Islamic Banking Regulatory Framework (IBRF), Title 5: Capital Adequacy.

3. There is no restriction on the transfer of funds from the Bank towards Maisarah. However, under the IBRF, Title 9, section 1.10.2, transfer of funds from Maisarah to the Bank is not permissible.

1.2. QUANTITATIVE DISCLOSURE

1. Maisarah does not own any interest in any entities including Takaful company.

2. CAPITAL STRUCTURE

2.1. QUALITATIVE DISCLOSURE

1. Islamic Windows of domestic conventional banks shall have and at all times maintain an allocated capital of not less than RO 10 million or such higher amount as may be determined from time to time by CBO. Islamic windows are also required to maintain the minimum capital adequacy ratio of 11% of the RWA at all times. The capital buffer requirement as per Basel III is imposed at the consolidated level and thus, is not applicable at the Islamic window level.

   Maisarah's regulatory capital is calculated as per the guidelines issued by the CBO. The regulatory capital is broadly classified into two categories – Tier I and Tier II capital. Maisarah's capital structure mainly consists of Tier I capital. Tier I capital includes paid up capital, retained earnings (available on a long-term basis) and reduced by unrealized losses on investments categorized as fair value through other comprehensive income. Within 11% Capital adequacy ratio, Islamic Window need to maintain minimum of 9% of Risk Weighted Assets (RWA) as Tier 1 Capital ratio.

   Tier II (supplementary capital) consists of undisclosed reserves, revaluation reserves / cumulative fair value gains on instruments classified as other comprehensive income and impairment provision subject to certain conditions.

   Deposits of Unrestricted Investment Account Holders (URIA) is not considered as part of regulatory capital and Maisarah is not reducing its risk weighted assets for jointly financed assets.

2. CAPITAL STRUCTURE (continued)

2.2 QUANTITATIVE DISCLOSURE (continued)

1 . The details of capital structure are provided as under:

ELEMENTS OF CAPITAL	RO'000
Common Equity Tier I Capital (CET1)	
Paid up capital	70,000
Share Premium	-
Legal Reserve	-
Subordinated Debt Reserve	-
Retained earnings	28,362
Proposed Stock Dividend	-
Common Equity Tier I Capital (CET1)	**98,362**
Prudential valuation adjustments	(1,968)
Additional Tier I Capital (AT1)	-
Total Tier I Capital (TI=CET1+AT1)	**96,394**
Tier 2 Capital (T2): Instruments and provisions	
Subordinated Debt	-
45% of cumulative fair value gains of FVOCI instruments	649
Impairment provision (upto 1.25% of risk-weighted assets) *	5,904
Total Tier 2 Capital (T2)	**6,553**
TOTAL REGULATORY CAPITAL (TC=CET1+AT1+ T2)	**102,947**

* As per CBO Circular BSD/CB/2020/005 dated 03 June 2020, Expected Credit Loss (ECL) under Stage 1 and Stage 2 (60% of incremental Stage 2 ECL till 31 December 2022) shall be considered for Tier II capital provided such amount should not exceed 1.25% of the credit risk weighted assets.

2. The elements of equity of Unrestricted Investment Account Holders (URIA) are provided as under:

ELEMENTS OF EQUITY OF URIA	RO'000
Total URIA Funds	54,143
Profit Equalization Reserve (PER) - Shareholders' Component	20
Profit Equalization Reserve (PER) - Investment Account Holders' Component)	20
Investment Risk Reserve (IRR)	10
Total	**54,193**

3. CAPITAL ADEQUACY

3.1. QUALITATIVE DISCLOSURE

1. i. The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings from external credit assessment institutions are used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

   Maisarah capital adequacy ratio is 16.66% as against the CBO requirement of 11% of Minimum capital adequacy ratio. The Bank's policy is to manage and maintain its window's capital with the objective of maintaining strong capital ratio and high rating. Maisarah maintains capital levels that are sufficient to absorb all material risks to which it is exposed to and provides market return to the shareholders. Maisarah also ensures that the capital levels comply with regulatory requirements. The whole objective of the capital management process in Maisarah is to ensure that it always remains adequately capitalized.

2. In principle, Risk weighted assets (RWA) financed by Profit Sharing Investment Accounts (PSIA) are excluded in the calculation of the denominator of the capital ratio, as to the extent the commercial risk of these assets does not affect the capital of the shareholders. However, as per communication received from CBO, RWA shall be computed similar to that in conventional banking, therefore, PSIA is not deducted. Assets funded by PSIA are also assigned same risk weights as the assets funded by own equity.

3.2. QUANTITATIVE DISCLOSURE

1. Capital Requirement

Details	Risk Weighted Assets RO'000	Capital Requirements* RO'000
Credit Risk	541,475	59,562
Market Risk	4,717	519
Operational Risk	71,614	7,878
Total Risk Weighted Assets	**617,806**	**67,959**

* Calculated as 11% of risk weighted assets as per the CBO requirement.

3. CAPITAL ADEQUACY (continued)

3.2. QUANTITATIVE DISCLOSURE (continued)

2. Capital Adequacy Ratio

Sr.No.	Details	RO'000
1	Tier I Capital (after supervisory deductions)	96,394
2	Tier II Capital (after supervisory deductions and up to eligible limits)	6,553
3	Of which, Total Eligible Tier III Capital	-
4	Risk weighted assets – banking book	541,475
5	Risk weighted assets – operational risk	71,614
6	Total risk weighted assets – Banking Book + Operational risk	**613,089**
7	Minimum required capital to support RWAs of banking book and operational risk	67,440
7 (1)	Minimum required Tier I capital for banking book and operational risk	60,887
7 (2)	Tier II capital required for banking book and operational risk	6,553
8	Tier I capital available for supporting trading book	35,507
9	Tier II capital available for supporting trading book	-
10	Risk weighted assets – trading book	4,717
11	Total capital required to support trading book	519
12	Minimum Tier I capital required for supporting trading book	148
13	Used Eligible Tier III Capital	-
14	**Total regulatory capital**	**102,947**
15	**Total risk weighted assets**	**617,806**
16	**BIS capital adequacy ratio**	**16.66%**

Maisarah Islamic Banking Services - window of BankDhofar SAOG
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

3. CAPITAL ADEQUACY (continued)

3.2. QUANTITATIVE DISCLOSURE (continued)

3. Ratio of Total and Tier I Capital to RWA

Details	RO 000 / %
Tier I capital	96,394
Total capital	102,947
Total RWA	617,806
Ratio of total capital to RWA	**16.66%**
Ratio of tier I capital to RWA	**15.60%**

4. Ratio of Total Capital to Total Assets

Details	RO 000 / %
Total capital	102,947
Total assets	674,825
Ratio of total capital to total assets	**15.26%**

5. Capital Requirement for Each Category of Shari'a Compliant Financing Contracts

Details	Credit Risk		Market Risk	
	RWA RO '000	Capital Requirement RO '000	RWA RO '000	Capital Requirement RO '000
Murabaha and other Receivables	15,040	1,654	-	-
Mudaraba Financings	28,310	3,114	-	-
Ijarah Assets	37,283	4,101	-	-
Diminishing Musharaka Financing	311,344	34,248	-	-
Wakala Financing	75,234	8,276	-	-
Total	**467,211**	**51,393**	**-**	**-**

3. CAPITAL ADEQUACY (continued)

3.2. QUANTITATIVE DISCLOSURE (continued)

6. Disclosure of Displaced Commercial Risk

Details	RO'000
Total profits available for distribution	**36,901**
Profit sharing	
- Shareholders	35,901
- IAH's	**1,000**
Mudarib fee charged by Maisarah	(489)
Profits for IAH's before smoothening	**511**
Amount adjustment for profit smoothening	(12)
Profits paid out to IAH after smoothening	**499**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH)

4.1.1. QUALITATIVE DISCLOSURE

1. i. Policy for profit and loss distribution is in place which governs the management of unrestricted funds. The policy includes the management and investment of fund strictly in Shari'a compliant investments and financing opportunities.
2. Currently, Maisarah offers following types of unrestricted Mudaraba deposits to customers:
   - High Yield Savings accounts;
   - Mudaraba Saving accounts; and
   - Term deposits of various maturities.

   These products are made available to the investors through Maisarah branches. Further, the products are also listed on Maisarah's website with detailed product information.
3. Asset and Liability Committee (ALCO) is the governing body responsible for the determination of assets to form the pool of assets. Basis for allocation of expenses and profit is provided in detail under disclosure 4.2.1.
4. The policy [identified in point (i) of this disclosure] is in place which governs the management of both unrestricted and restricted IAH funds, approaches to the management of investment portfolio, establishment of prudential reserves, and the calculation, allocation and distribution of profits.

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH) (continued)

4.1.2. QUANTITATIVE DISCLOSURE

1. PER to IAH Ratio

Represents the amount of total PER / Amount of PSIA by type of IAH

Details	RO'000 / %
Profit Equalization Reserve	40
Unrestricted Investment Account Holders funds	54,143
PER to IAH ratio	**0.074%**

2. IRR to IAH Ratio

Represents the amount of total IRR / Amount of PSIA by type of IAH

Details	RO'000 / %
Investment Risk Reserve (IRR)	10
Unrestricted Investment Account Holders funds	54,143
IRR to IAH ratio	**0.018%**

3. Return on Assets (RoA)

Represent the amount of total net income (before distribution of profit to unrestricted IAH) / Total amount of assets financed by shareholders' equity and minority interests, Unrestricted IAH, and current accounts and other liabilities).

Details	RO'000 / %
Total net income (before distribution to IAHs)	8,841
Total assets	674,825
RoA	**1.310%**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH) (continued)

4.1.2. QUANTITATIVE DISCLOSURE (continued)

4. Return on Equity (RoE)

Represents the amount of total net income (after distribution of profit to IAH) / Amount of shareholders' equity.

Details	RO'000 / %
Total net income (after distribution to IAHs)	8,342
Total shareholder's equity	97,836
RoE	**8.527%**

5. Ratios of Profit Distributed to PSIA by type of IAH

Details	%
Savings deposit	100
Term deposit	-
Total	**100**

6. Ratios of Financing to PSIA by type of IAH

Details	RO'000 / Ratio
Total Financing	553,023
Saving deposits	54,143
Financing to PSIA	**10.21**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.2. UNRESTRICTED INVESTMENT ACCOUNTS

4.2.1. QUALITATIVE DISCLOSURE

1. During the current year, there was no major change in the investment strategy of Maisarah which affects the investment accounts. Maisarah continued the commingling of IAH's funds with its own funds or with the funds which Maisarah has right to use.
2. Income from Mudaraba pool, comprising of Shari'a compliant assets, is reduced by direct expenses. PER is appropriated from the net income before allocating the Mudarib's share of income. Thereafter, Mudarib's fee is charged which shall not exceed 80% of the profit earned by Maisarah. IRR is deducted from investment accountholders share after allocating the Mudarib's share of profit. Net distributable income is distributed to different classes of investment accountholders in accordance with the weightages based on amount and tenor.
3. PER 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. PER will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. IRR is deducted from investment accountholders share after allocating the Mudarib's share of profit 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.
4. ALCO determines the category of expenses that should be deducted from the total return (gross returns) of the investment pools as direct expenses. Direct expenses such as depreciation, pre-paid expenses, commission of direct investments (such as Sukuk) or any other direct related expenses shall be charged to the relevant pool. Maisarah does not charge any operating expenses against the profits from the joint pool other than the aforementioned direct expenses.
5. The administration expenses are only charged to Maisarah.

4.2.2. QUANTITATIVE DISCLOSURE

1. Unrestricted IAH Funds and Sub-Total by Asset Category

Details	RO'000
Assets	
- Murabaha	1,481
- Diminishing Musharaka	31,891
- Ijarah Muntahia Bittamleek	5,216
- Wakala financing	6,137
- Mudaraba financing	776
- Investment in Sukuk	7,619
- Wakala placement	950
- Murabaha and Musawamah inventory	-
- Advances	73
Total Unrestricted IAH Funds (allocated based on proportion)	**54,143**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.2. UNRESTRICTED INVESTMENT ACCOUNTS (continued)

4.2.2. QUANTITATIVE DISCLOSURE (continued)

2. Share of Profit to IAH before and after transfer of funds

Details	RO'000	%
Share of profit of IAHs before PER and IRR for the year	511	0.94%
Transfers To:		
PER	(10)	(0.02%)
IRR	(2)	0.00%
Share of profit of IAHs after PER and IRR for the year	**499**	**0.92%**

3. Movement of PER and IRR

Details	PER RO'000	IRR RO'000
Balance as at 1 January 2022	30	8
Add: Amount apportioned from income allocated	10	2
Less: Amount utilized during the year	-	-
Balance as at 31 December 2022	**40**	**10**

4. Utilization of PER and IRR

PER and IRR have not been utilized during the year.

5. 5 Years Profits Earned and Profits Paid

Deposit Category	Average rate over 5 years	Position as at				
		Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
High Yield Saving (RO)	0.91%	1.51%	1.21%	0.57%	0.60%	0.66%
High Yield Saving (USD)	0.21%	0.20%	0.22%	0.19%	-	0.22%
Mudaraba Saving	0.63%	0.61%	0.68%	0.59%	0.61%	0.64%

6. Administrative Expenses

Maisarah does not charge any administrative expenses to unrestricted IAH.

7. Asset Allocation During Last Six Months

There have been no material changes in asset allocation during the last six months.

8. Off Balance Sheet Exposures

No off-balance sheet exposure is allocated to the pool.

9. Limits Imposed on Investment Amount

Maisarah has not imposed any limits on the amount that can be invested in any one type of asset.

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.3. RESTRICTED INVESTMENT ACCOUNTS

1. The Bank does not have any restricted investment accounts as at the reporting date.

5. RETAIL INVESTOR-ORIENTED DISCLOSURES FOR IAH

Disclosures for IAHs, mentioned in section 4, is equally applicable for the retail investors. Below are some of the salient features for retails investors:

1. The deposits being accepted by the Bank under URIA are structured according to Mudaraba contracts. Under the Mudaraba, the Bank acts as a Manager (Mudarib) of the depositor / Investor (Rabb-ul-Maal).
2. Under the arrangement of URIA, the Bank is authorized to invest the IAHs' funds strictly in Shari'a compliant investment and financing opportunities. Under this arrangement, the Bank can mix the IAHs funds with its own funds. Accordingly, IAHs, and the Bank share in the returns on the invested funds in proportion to their respective investments.
3. Different categories of deposits are assigned variable weights / utilization rates based on the investment amount and tenor. The higher the investment amount and the longer the investment tenor, the higher shall be the weights / utilization rates.
4. In case of premature withdrawals, the bank may apply a lower weights / utilization rate. Where a deposit is withdrawn by the IAH before the completion of its term, the effective weight / utilization rate for the highest tenor completed by the investment shall be applied on the actual investment days for profit calculation.
5. Profit on the investment jointly financed by the Bank and IAHs, shall be allocated between them according to their respective investment portions. Any loss due to negligence or misconduct on the part of the Bank shall be deducted from the Bank's share in the profits of the jointly financed investment.
6. The profit from URIA accounts shall be calculated and allocated based on the profit calculation frequency and the weights / utilization rates assigned to each category of deposits.
7. The banks shall charge only direct expense to the pool income such as depreciation on Ijarah assets; and will not deduct any indirect expenses such as salary, admin costs etc.
8. To cater the situation where actual profit rate is less than the market rate (known as Displaced Commercial Risk) and to cater the future losses, the Bank maintains a certain percentage of profits as Profit Equalization Reserve and Investment Risk Reserve respectively.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION

6.1. GENERAL DISCLOSURE

6.1.1. QUALITATIVE DISCLOSURE

1. Bank has well established risk management function which commonly serves the Conventional and Islamic window entity. The objective of the risk management function is to identify, measure, monitor and manage its risk exposures to ensure that:
   - risks are understood;
   - risks are within tolerances set by the Board of Directors;
   - decisions having inherent risks are consistent with strategic business objectives;
   - risk taking decisions are explicit and clear;

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.1. GENERAL DISCLOSURE (continued)

6.1.1. QUALITATIVE DISCLOSURE (continued)

- the expected return compensates for the risk taken; and
- bank's performance incentives are aligned with risk tolerances or risk reward relationship.

Risk management is a continuous, forward-looking process that should address issues that could endanger achievement of critical objectives. A continuous risk management approach is applied to effectively anticipate and mitigate the risks that have critical impact on the business.

Bank's risk management strategy statement has been provided under Chapter on Management Discussion and Analysis. Bank has formulated various policies in various areas of operations of the Bank which are duly approved by the Board of Directors. Bank also has developed various procedures for smooth functioning and mitigating/ controlling risks.

2. The overall risk management has been delegated to an independent Board Risk Committee (BRC) of the Bank, which monitors and controls the overall risk profile (including Maisarah Islamic Banking Services). The BRC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in the Bank. In this task, BRC relies on an independent Risk Management Division within the Bank.

   The Bank has a well-established Risk Management Division (RMD) with a team of highly competent and experienced professionals. The primary responsibility of the RMD is to ensure, on a continuous basis, that an effective risk management framework exists and that the various divisions of the Bank, including Maisarah Islamic Banking Services, function within this framework. RMD also functions as an interface between the Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions of the Bank and in ensuring that policies and procedures are tailored to the defined tolerance levels.

3. Depending on the type of risk, Bank has placed internal systems and models to measure various risks. The risk measurement system has been made effective by strengthening the Management Information System (MIS) to report about various to Senior Management and Board on periodical basis. The measurement of risk takes into account the nature of the risk, exposure, profile, existence of mitigants and the impact.

4. Bank has defined various policies to define the collaterals and processes to mitigate various risks. A continuous risk management approach is applied to effectively anticipate and mitigate the risks that have critical impact on the business. Bank has defined three lines of defense system for monitoring the risks. The Three Lines of Defense Framework defines roles and responsibilities of various entities in the Bank in addressing risks and controls; the aspect for which each entity is accountable, and how the efforts between entities are coordinated at the Bank-wide level. The framework addresses how specific duties related to risk and control could be assigned and coordinated within an organization and monitors the implementation of effective risk management practices.

6.1.2. QUANTITATIVE DISCLOSURE

1. Risks Measures for Restricted IAH Funds and Assets Funded by Restricted IAH

The Bank does not have any restricted investment accounts as at the reporting date.

2. Assets Financed by Unrestricted IAH in RWA Calculation

Maisarah applies same treatment for calculation of RWA for assets financed by unrestricted IAH and shareholders.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.1. GENERAL DISCLOSURE (continued)

6.1.2. QUANTITATIVE DISCLOSURE (continued)

3. Financing by Contract Type

Details	RO'000	% of total financing
Murabaha and other receivables	18,823	3.39%
Mudaraba Financings	9,437	1.70%
Ijarah Assets	63,395	11.41%
Diminishing Musharaka Financing	387,597	69.78%
Wakala Financing	76,229	13.72%
Total	**555,481**	**100.00%**

4. Financing by Counterparty Category

Details	RO'000	% of total financing
Corporate and SME	379,299	68.28%
Retail	176,182	31.72%
Total	**555,481**	**100.00%**

5. Assets Pledged as Collateral

As of the reporting date, Maisarah has not pledged any of its assets as collateral (2021: no assets were pledged).

6. Guarantees or Pledges by Islamic Window

As of the reporting date, Maisarah has not extended any guarantees or pledges (2021: no guarantees or pledges).

6.2. CREDIT RISK

6.2.1. QUALITATIVE DISCLOSURE

1. Credit risk is defined as the possibility that a customer or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from Maisarah's dealings with or financing to a corporate, individual, another bank or financial institution. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

2. Maisarah has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent benchmarks, limits for management of credit risks. The Board of Directors delegate credit approval powers for functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.1. QUALITATIVE DISCLOSURE (continued)

Board Executive Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain finance approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) 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 of all the credit corporate proposals before they are considered by the appropriate approving authorities. The customers in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned the grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the customer and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition, RMD reviews grading of obligors, and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category accounts), reviews have been prescribed at higher frequency.

Retail financing is strictly in accordance with the CBO guidelines.

In addition to these, Maisarah also undertakes business with other banks. The maximum exposures to these banks are defined in the policy on exposure to non-resident borrowers and restrictions are put in place on the total exposure to such counterparty banks. Maisarah has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the internal risk rating grades assigned to various countries and these limits are reviewed at least on yearly basis.

3. In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention is used for Maisarah as well.

The Bank's conventional entity has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. The same convention has been adopted for Maisarah as well.

The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is NIL. All other credit exposures of Corporate and Retail are assigned 100% risk weight, except:

- 35% risk weight for house finance, where valuation of the property is not older than 7 years, have a maximum of 2 dwelling units per borrower, and LTV is less than or equal to 90%;
- 75% risk weight for personal finance (other than house finance), where the total borrower exposure is less than or equal to RO 250 thousand.
- 75% for SME borrowers.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.1. QUALITATIVE DISCLOSURE (continued)

4. Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Bank has adopted the International Financial Reporting Standards (IFRS) 9 guidelines for estimation of Expected Credit Loss as per International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, effective from 01 January 2018. 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 various stages of credit risk.

6.2.2. QUANTITATIVE DISCLOSURE

1. Total Gross Credit and Average Gross Credit Exposure

31 December 2022	Total Gross Credit RO'000	Average Gross Credit RO'000
Murabaha and other receivables	18,823	25,273
Mudaraba financing	9,437	12,063
Diminishing Musharaka financing	387,597	362,890
Wakala financing	76,229	76,701
Ijarah Muntahia Bittamleek	63,395	53,284
Total	**555,481**	**530,211**

31 December 2021	Total Gross Credit RO'000	Average Gross Credit RO'000
Murabaha and other receivables	29,218	30,593
Mudaraba financing	17,819	15,127
Diminishing Musharaka financing	347,400	349,779
Wakala financing	61,606	56,104
Ijarah Muntahia Bittamleek	45,212	46,059
Total	**501,255**	**497,662**

Murabaha and other receivable includes Credit Card receivables which are funded exclusively by shareholders while all other financing exposures are funded jointly by shareholders and IAH. Percentage of funding of financing assets as at 31 December 2022 is as below:

Shareholders **90.25%**

IAH **9.75%**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

2. Total Gross Credit Exposure – Geographical Area

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Sultanate of Oman	18,823	9,437	387,597	76,229	63,395	**555,481**
Other GCC Countries	-	-	-	-	-	**-**
Europe and North America	-	-	-	-	-	**-**
Africa and Asia	-	-	-	-	-	**-**
Total	**18,823**	**9,437**	**387,597**	**76,229**	**63,395**	**555,481**

3. Total Gross Credit Exposure – Counterparty

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Corporate & SME	4,135	9,437	268,857	76,229	20,641	**379,299**
Retail	14,688	-	118,740	-	42,754	**176,182**
Total	**18,823**	**9,437**	**387,597**	**76,229**	**63,395**	**555,481**

4. Total Gross Credit Exposure – Industry

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Retail personal finances	14,688	-	118,740	-	42,754	**176,182**
Construction	1,193	3,706	148,289	16,981	16,976	**187,145**
Manufacturing	545	263	9,620	11,017	-	**21,445**
Services	-	443	63,089	4,947	-	**68,479**
Others	2,397	5,025	47,859	43,284	3,665	**102,230**
Total	**18,823**	**9,437**	**387,597**	**76,229**	**63,395**	**555,481**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

5. Total Gross Credit Exposure – Residual Contractual Maturity

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Upto 1 month	1,509	9,437	647	12,518	-	**24,111**
1 – 3 months	677	-	294	32,655	-	**33,626**
3 – 6 months	356	-	2,478	25,062	-	**27,896**
6 – 9 months	81	-	314	4,643	-	**5,038**
9 – 12 months	48	-	2,550	-	14	**2,612**
1 – 3 years	2,493	-	24,019	-	209	**26,721**
3 – 5 years	3,731	-	16,272	1,351	449	**21,803**
Over 5 years	9,928	-	341,023	-	62,723	**413,674**
Total	**18,823**	**9,437**	**387,597**	**76,229**	**63,395**	**555,481**

6. Total Gross Credit Exposure – Rating Category

Ratings	2022 RO'000	2021 RO'000
Rating grade 1 – 3	71,869	58,252
Rating grade 4 – 5	323,566	348,726
Rating grade 6 – 8	153,105	89,610
Non – performing financing	6,941	4,667
Total Financing	**555,481**	**501,255**

7. Total Gross Credit Exposure – Equity Based Financing

Equity based financing	31 December 2022		31 December 2021	
	Total Gross Credit RO '000	Average Gross Credit RO '000	Total Gross Credit RO '000	Average Gross Credit RO '000
Mudaraba financing	**9,437**	**12,063**	17,819	15,127
Wakala financing	**76,229**	**76,701**	61,606	56,104
Total	**85,666**	**88,764**	**79,425**	**71,231**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

8. Past Due and Impaired Financing Assets – Counterparty

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Corporate & SME						
- Neither past due nor impaired	3,120	9,437	198,779	72,860	20,641	**304,837**
- Past due but not impaired	648	-	64,257	3,202	-	**68,107**
- Non-performing	367	-	5,821	167	-	**6,355**
- Total financing	**4,135**	**9,437**	**268,857**	**76,229**	**20,641**	**379,299**
- Stage 1 & 2 ECL	19	41	10,552	408	70	**11,090**
- Stage 3 ECL	107	-	2,227	47	-	**2,381**
- Total ECL	**126**	**41**	**12,779**	**455**	**70**	**13,471**
Retail						
- Neither past due nor impaired	14,255	-	113,496	-	40,767	**168,518**
- Past due but not impaired	272	-	5,010	-	1,796	**7,078**
- Non-performing	161	-	234	-	191	**586**
- Total financing	**14,688**	**-**	**118,740**	**-**	**42,754**	**176,182**
- Stage 1 & 2 ECL	38	-	401	-	125	**564**
- Stage 3 ECL	100	-	181	-	126	**407**
- Total ECL	**138**	**-**	**582**	**-**	**251**	**971**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

9. Past Due and Impaired Financing Assets – Industry

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Retail personal finances						
- Neither past due nor impaired	14,255	-	113,496	-	40,767	**168,518**
- Past due but not impaired	272	-	5,010	-	1,796	**7,078**
- Non-performing	161	-	234	-	191	**586**
- Total financing	**14,688**	**-**	**118,740**	**-**	**42,754**	**176,182**
- Stage 1 & 2 ECL	38	-	401	-	125	**564**
- Stage 3 ECL	100	-	181	-	126	**407**
- Total ECL	**138**	**-**	**582**	**-**	**251**	**971**
Construction						
- Neither past due nor impaired	597	3,706	107,349	15,559	16,976	**144,187**
- Past due but not impaired	596	-	35,268	1,422	-	**37,286**
- Non-performing	-	-	5,672	-	-	**5,672**
- Total financing	**1,193**	**3,706**	**148,289**	**16,981**	**16,976**	**187,145**
- Stage 1 & 2 ECL	11	20	3,504	26	61	**3,622**
- Stage 3 ECL	-	-	2,174	-	-	**2,174**
- Total ECL	**11**	**20**	**5,678**	**26**	**61**	**5,796**
Manufacturing						
- Neither past due nor impaired	545	263	6,987	10,787	-	**18,582**
- Past due but not impaired	-	-	2,633	230	-	**2,863**
- Non-performing	-	-	-	-	-	**-**
- Total financing	**545**	**263**	**9,620**	**11,017**	**-**	**21,445**
- Stage 1 & 2 ECL	2	1	178	321	-	**502**
- Stage 3 ECL	-	-	-	-	-	**-**
- Total ECL	**2**	**1**	**178**	**321**	**-**	**502**
Services						
- Neither past due nor impaired	-	443	44,647	4,848	-	**49,938**
- Past due but not impaired	-	-	18,441	100	-	**18,541**
- Non-performing	-	-	-	-	-	**-**
- Total financing	**-**	**443**	**63,088**	**4,948**	**-**	**68,479**
- Stage 1 & 2 ECL	-	8	4,268	9	-	**4,285**
- Stage 3 ECL	-	-	-	-	-	**-**
- Total ECL	**-**	**8**	**4,268**	**9**	**-**	**4,285**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

9. Past Due and Impaired Financing Assets – Industry (continued)

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Others						
- Neither past due nor impaired	1,978	5,025	39,796	41,666	3,665	**92,130**
- Past due but not impaired	52	-	7,915	1,450	-	**9,417**
- Non-performing	367	-	149	167	-	**683**
- Total financing	**2,397**	**5,025**	**47,860**	**43,283**	**3,665**	**102,230**
- Stage 1 & 2 ECL	6	12	2,602	52	9	**2,681**
- Stage 3 ECL	107	-	53	47	-	**207**
- Total ECL	**113**	**12**	**2,655**	**99**	**9**	**2,888**

10. Past Due and Impaired Financing Assets – Geographical Area

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Sultanate of Oman						
- Neither past due nor impaired	17,375	9,437	312,275	72,860	61,408	**473,355**
- Past due but not impaired	920	-	69,267	3,202	1,796	**75,185**
- Non-performing	528	-	6,055	167	191	**6,941**
- Total financing	**18,823**	**9,437**	**387,597**	**76,229**	**63,395**	**555,481**
- Stage 1 & 2 ECL	57	41	10,953	408	195	**11,654**
- Stage 3 ECL	207	-	2,408	47	126	**2,788**
- Total ECL	**264**	**41**	**13,361**	**455**	**321**	**14,442**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

11. Loss Provisions

Details	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
As at 1 January 2022	5,292	4,732	2,445	12,469
Added / (Reversed) during the year	(3,253)	5,329	1,957	4,033
Written back during the year	-	-	(586)	(586)
Written off during the year	-	-	-	-
As at 31 December 2022	**2,039**	**10,061**	**3,816**	**15,916**

12. Penalties on Customers and Donation Payment

Details	RO'000
Undistributed charity funds as at 1 January 2022	5
Shari'a non-compliant income	7
Disposition of charity funds	(5)
Undistributed charity funds as at 31 December 2022	**7**

6.3. CREDIT RISK MITIGATION

6.3.1. QUALITATIVE DISCLOSURE

1. Assets leased under Ijarah Muntahiyah Bittamleek is governed by the relevant product schemes of Corporate Ijarah and Home Finance. Asset under Ijarah is owned by Maisarah by registering it in its name throughout the period of Ijarah. Further, the asset is also secured through Takaful (Islamic Insurance), to cover Maisarah's exposure in case of loss.

2. Hamish Jiddiyah / Urbun is a down payment is taken from the customer as part of his contribution in the asset. With respect to pledge of asset, an asset in case of Ijarah remains in Maisarah's ownership during the term of financing, however, in case of Diminishing Musharaka the pledge is a primary collateral.

3. Maisarah has well defined policies in place for the valuation and re-valuation of the collateral and its enforceability. It is principally governed through the Credit Risk Policy, combined with related product schemes such as Corporate Ijarah, Corporate Diminishing Musharaka, Home Finance and Property Finance. Further to this the mechanism of disposing of such assets is also discussed in the policy and Instruction Manual Wholesale Banking and Instruction Manual Credit Administration.

4. The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.3. CREDIT RISK MITIGATION (continued)

6.3.1. QUALITATIVE DISCLOSURE (continued)

The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a customer and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing assets grades (including special mention) and 3 non-performing assets grades. The rating grade indicates the default probability of the customer's obligation. The same rating framework has been adopted by Maisarah as well.

Bank has also implemented Risk Adjusted Return on Capital (RAROC) methodology for Maisarah which provides the risk-based pricing. The RAROC system enables Maisarah to price its facilities after considering the cost and risk involved in a facility.

6.3.2. QUANTITATIVE DISCLOSURE

1. Total Carrying Amount by Type of Collateral

Total carrying amounts of collateral of non-performing corporate assets by type of collateral held by the window is as follows:

Collateral Type	Collateral Value RO'000	Haircut Applied %	Total Collateral After Haircut Applied RO'000
Mortgage – with last valuation date 1 year and less	377	25	283
Mortgage – with last valuation date more than 1 year but less than 2 years	8,074	35	5,248
Mortgage – with last valuation date more than 3 years	152	100	-
Total	**8,603**	**-**	**5,531**

2. Assets Owned and Leased under Ijarah Muntahiyah Bittamleek

Carrying amount of assets under Ijarah Muntahia Bittamleek as of 31 December 2022 is RO 63,395 thousand.

6.4. LIQUIDITY RISK

6.4.1. QUALITATIVE DISCLOSURE

1. i. Maisarah's Liquidity Risk Management is governed by the Asset Liability Management Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management.

Overall, Bank follows CBO circular BM955 for liquidity risk management of Current Accounts and URIA, which requires the monitoring and managing based on the cashflow approach for liquidity risk profile. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.4. LIQUIDITY RISK (continued)

6.4.1. QUALITATIVE DISCLOSURE (continued)

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 above five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the limits set by CBO on 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 Bank 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.

6.4.2. QUANTITATIVE DISCLOSURE

1. Indicators of Exposure to Liquidity Risk

Ratios	%
Liquid asset ratio	13.82%
Liquid assets to short term liabilities	112.30%
Liquidity coverage ratio	132.19%
Net stable funding ratio	123.48%

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.4.2. QUANTITATIVE DISCLOSURE (continued)

2. Maturity Analysis / Maturity Profile

	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
Cash and balances with Central Bank of Oman	14,380	-	-	-	-	**14,380**
Due from banks and financial institutions	13,819	-	-	-	-	**13,819**
Murabaha and other receivables	374	1,097	341	6,543	10,468	**18,823**
Mudaraba financing	472	944	944	4,718	2,359	**9,437**
Diminishing Musharaka financing	8,231	37,302	43,472	165,865	132,727	**387,597**
Investments	-	10,000	9,019	69,581	4,000	**92,600**
Wakala	14,196	55,904	4,657	1,350	122	**76,229**
Ijarah Muntahia Bittamleek	-	1	62	657	62,675	**63,395**
Property and equipment	-	-	-	-	651	**651**
Intangibles	-	-	-	-	475	**475**
Other asset	11,217	133	-	-	1,608	**12,958**
Allowance for ECL and profit suspended	(1,028)	-	(209)	-	(14,302)	**(15,539)**
Total assets	**61,661**	**105,381**	**58,286**	**248,714**	**200,783**	**674,825**
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	10,410	145	12	128	394	**11,089**
Wakala inter bank deposits	19,250	-	-	35,000	-	**54,250**
Wakala customer deposits	24,766	62,433	62,640	171,718	61,040	**382,597**
Equity of unrestricted investment accountholders	2,707	5,414	5,414	27,072	13,586	**54,193**
Owner's equity	-	-	-	-	97,836	**97,836**
Total liabilities and accountholders & owners' equity	72,410	78,745	109,214	233,918	180,538	674,825

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.5. MARKET RISK

6.5.1. QUALITATIVE DISCLOSURE

1. Market Risk is the risk to the Bank's earnings and capital due to changes in the profit rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

   Maisarah has a comprehensive Asset Liability Management Policy which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per standardized approach of Basel II.

6.5.2. QUANTITATIVE DISCLOSURE

1. Breakdown of Market Risk RWA

Details	RWA RO'000
Foreign exchange & gold position	4,717
Commodities position	-
Total	**4,717**

2. Foreign Exchange Net Open Positions to Capital

Details	Amount RO'000
Foreign exchange net open position	18,990
Total capital	102,947
Foreign exchange net open position to total capital	0.184
99.8% of the net open position is in pegged currencies.	

3. Commodity Net Open Positions to Capital

As at reporting date, Maisarah does not have an exposure to commodity positions.

4. Equity Net Open Positions to Capital

As at reporting date, Maisarah does not have an exposure to equity positions.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.5. MARKET RISK (continued)

6.5.2. QUANTITATIVE DISCLOSURE (continued)

5. Assets Subject to Market Risk by Type of Assets

Type of Assets	Gross Amount RO'000
Total Sukuk	92,600
Net open position foreign currency	18,990

6. Sensitivity analysis for different types of Market Risk

Impact on earnings due to profit rate risk in the banking book is as follows:

	+ or – 1%		+ or – 2%	
	2022 RO '000	2021 RO '000	2022 RO '000	2021 RO '000
Omani Rials	**1,447**	1,035	**2,893**	2,069
US Dollars	**125**	420	**250**	839
Other currencies	**-**	-	-	-

Impact on earnings due to foreign exchange risk:

Impact on earnings due to 10% devaluation of foreign exchange in the banking book is RO 1,899 thousand.

6.6. OPERATIONAL RISK

6.6.1. QUALITATIVE DISCLOSURE

1. The Operational risk policy of the Bank sets out the loss mitigation tools. Bank has established a disaster comprehensive recovery and business continuity plan, considering various plausible scenarios in accordance with the 'Business Continuity Plan (BCP). Bank has implemented IT Security Policy and guidelines to mitigate the information technology security related risks.

   The Bank has developed a comprehensive operational risk management framework comprising of the Risk Control and Self-Assessment, Key Risk Indicator and Loss Data Management (LDM) Framework. 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 on the Bank. Bank has created a comprehensive risk register which includes inherent risk events, control effectiveness and residual risks. The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks at various levels. 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.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.6. OPERATIONAL RISK (continued)

6.6.1. QUALITATIVE DISCLOSURE (continued)

2. Bank has set up Management Risk Committee to identify, manage, measure, monitor, mitigate and report operational risks.

   Bank has the process of collecting and collating data on operational risk events to build a strong loss data base and to improve the control effectiveness. The loss data are being captured using Operational Risk Management system. Further, other operational risk tools like Risk Control & Self-Assessment (RCSA) and Key Risk Indicators (KRIs) are also implemented.

   In terms of regulatory guidelines, Bank has adopted the Basic Indicator Approach (BIA) for computing the capital charge for Operational Risk.

3. Maisarah has in place the policies and procedures to increase the banking as well as the Islamic financing knowledge within its staff. During the year, Maisarah has conducted 50 training programs including both in-house as well as external training programs. These programs were conducted mainly in the areas of concepts of Islamic banking and the products and services of Islamic banking.

6.6.2. QUANTITATIVE DISCLOSURE

1. RWA Equivalent for Quantitative Operational Risk

Details	RWA RO'000
Operational risk	71,614

2. Gross Income

Details	2022 RO'000	2021 RO'000	2020 RO'000	Average
Gross income	43,243	37,408	33,931	38,194

3. Amount of Shari'a Non-Compliant Income

Amount of Shari'a non-compliant income transferred to charity was RO 7 thousand.

6.7. RATE OF RETURN RISK

6.7.1. QUALITATIVE DISCLOSURE

1. Rate of return risk refers to the possible impact on the net income of Maisarah arising from the impact of changes in market rates and relevant benchmark rates on the return on assets and on the returns payable on funding. An increase in benchmark rates may result in IAH's having expectation of a higher rate of return, while the returns on assets may be adjusting more slowly due to longer maturities, thereby affecting the net income of Maisarah.

2. The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Maisarah is not subject to any significant profit rate risk. However, the profit-sharing agreements will result in Displaced Commercial Risk (DCR) when Maisarah results do not allow to distribute profits in line with the market rates. To cater against DCR, Maisarah creates Profit Equalisation Reserve as explained in section 4.2.1.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.7. RATE OF RETURN RISK (continued)

6.7.2. QUANTITATIVE DISCLOSURE

1. Indicators of exposures to rate of return risk

	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
31 December 2021								
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	**6.17%**	12,555	55,903	4,616	1,351	166	1,183	**75,774**
Ijara 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**	**-**	**-**

Maisarah Islamic Banking Services - window of BankDhofar SAOG
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.7. RATE OF RETURN RISK (continued)

6.7.2. QUANTITATIVE DISCLOSURE (continued)

2. Sensitivity Analysis

As per the sensitivity analysis of profit rate movement by 200 basis points on the rate sensitive assets and liabilities the impact is OMR 19,474 thousand on the Net worth of Maisarah.

6.8. DISPLACED COMMERCIAL RISK

6.8.1. QUALITATIVE DISCLOSURE

1. Displaced Commercial Risk (DCR) refers to the market pressure to pay returns which exceed the rate that has been actually earned on each category of deposit. Reason may be underperforming assets as compared to market rates or commitment to retain customers by giving higher returns. To cater for DCR, to avoid fluctuations in the profits and to cater the risk of future losses, Maisarah maintains a certain percentage of the profits as PER and IRR in accordance with the detailed profit and loss distribution policy.

6.8.2. QUANTITATIVE DISCLOSURE

1. Disclosure of Historical Data Over the Past Years

Details	Position as at				
	Dec 2022 RO'000	Dec 2021 RO'000	Dec 2020 RO'000	Dec 2019 RO'000	Dec 2018 RO'000
Total profits available for sharing	36,901	33,588	30,310	26,240	23,498
Profit available for IAH before smoothing	1,000	2,051	1,354	1,136	405
Profit paid to IAH after smoothing	499	1,622	1,065	898	202

Details	Position as at				
	Dec 2022 RO'000	Dec 2021 RO'000	Dec 2020 RO'000	Dec 2019 RO'000	Dec 2018 RO'000
PER	40	30	22	16	11
IRR	10	8	5	4	3

2. Five-Year Comparison of Historical Rate of Return with Market Benchmark Rate

No market benchmark rate is available for comparison purpose.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.8. DISPLACED COMMERCIAL RISK (continued)

6.8.2. QUANTITATIVE DISCLOSURE (continued)

3. Five-Year Comparison Between Return to IAHs and Return to Shareholders

Deposit Category	Position as at				
	Dec 2022 RO'000	Dec 2021 RO'000	Dec 2020 RO'000	Dec 2019 RO'000	Dec 2018 RO'000
Investment Account Holders					
High Yield Saving (RO)	1.51%	1.21%	0.57%	0.60%	0.66%
High Yield Saving (USD)	0.20%	0.22%	0.19%	-	0.22%
Mudaraba Saving Account	0.61%	0.68%	0.59%	0.61%	0.64%
Mudaraba 1-M	-	-	-	-	-
Mudaraba 3-M	-	-	-	-	-
Mudaraba 6-M	-	-	-	-	-
Mudaraba 12-M	-	-	-	-	-
Equity	5.92%	6.34%	5.86%	5.82%	5.90%

4. Profit Appropriated to PER and IRR

Appropriation of profit to PER and IRR is provided under disclosure (ii) of 4.2.2.

5. Analysis of difference between aggregate Mudaraba earned profits and profits distributed

Details	RO'000
Total profits available for distribution to IAH	1,000
- Mudarib fee charged by Maisarah	(489)
- PER	(10)
- IRR	(2)
Profit distributed to IAH	**499**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.8. DISPLACED COMMERCIAL RISK (continued)

6.8.2. QUANTITATIVE DISCLOSURE (continued)

6. Analysis of the proportion of the RWA funded by IAH

Details	RWA RO'000	RWA %
Assets		
- Murabaha	1,186	2.91%
- Diminishing Musharaka	25,616	62.80%
- Ijarah Muntahia Bittamleek	3,068	7.52%
- Wakala financing	6,190	15.18%
- Mudaraba financing	2,328	5.71%
- Investment in Sukuk	2,139	5.24%
- Wakala placement	190	0.47%
- Murabaha and Musawamah inventory	-	0.00%
- Advances to customers	73	0.18%
Total assets funded by IAH (allocated based on proportion)	**40,790**	**100.01%**

6.9. CONTRACT-SPECIFIC RISKS

6.9.1. QUALITATIVE DISCLOSURE

1. For the purpose of various types of Shari'a compliant financing contracts, the Bank assigns the risk-weightage based on the purpose of financing as well as the risk profile of the customer as prescribed in IBRF.

6.9.2. QUANTITATIVE DISCLOSURE

1. RWA Classified by Shari'a Compliant Financing Contracts

Sr.No.	Details	RWA RO'000
1	Murabaha and other receivables	15,040
2	Mudaraba Financings	28,310
3	Ijarah Assets	37,283
4	Diminishing Musharaka Financing	311,344
5	Wakala Financing	75,234
	Total	**467,211**

7. GENERAL GOVERNANCE AND SHARI'A GOVERNANCE DISCLOSURES

7.1. GENERAL GOVERNANCE DISCLOSURES

7.1.1. QUALITATIVE DISCLOSURE

1. Maisarah follows Financial Accounting Standard issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as required by the regulations of the Central Bank of Oman. There had been no departure from the financial reporting framework of AAOIFI during the year.

2. Being the Islamic window operation of the Bank, Maisarah is managed under the same governance structure as the Bank. The details of which are disclosed in the main Pillar III document of the Bank. In addition, Maisarah's operations are governed and monitored by the Shari'a Supervisory Board (SSB) details of which is provided under disclosure 7.2.

3. In the ordinary course of business, Maisarah conducts transactions with some 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:

Related parties' transactions	2022 RO'000	2021 RO'000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**149**	635
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**44,055**	236
Other transactions		
Rental payment to a related party	**245**	294
Income from finance to related parties	**8**	19
Profit expense on deposits from related parties	**761**	2
Key management compensation		
Salaries and other benefits	**568**	653
End of service benefits	**-**	-

4. During the year, Maisarah launched many educational campaigns on its products and services. These campaigns were announced on all Maisarah's digital platforms as well in local papers and outdoors.

5. Complaint management of Maisarah customers is handled at the parent entity level through the Complaint Management Department. The department has a written procedures and process whereby it handles the complaints receive through branches, emails, and call centers. The complaints are lodged and a proper resolution mechanism in place including escalations as well as follow up with concerned departments and customers.

6. Maisarah participated in the seventh edition of Islamic Finance News (IFN) Oman Forum 2022. The forum was organized in collaboration with the Capital Market Authority, Sultanate of Oman. As well Maisarah held the official launch of the electronic donations page by Al Zakat Committee.

7. GENERAL GOVERNANCE AND SHARI'A GOVERNANCE DISCLOSURES (continued)

7.2. SHARI'A GOVERNANCE DISCLOSURES

7.2.1. QUALITATIVE DISCLOSURE

1. The most distinct feature of any Islamic bank is its compliance with the principles of Shari'a in all its activities, operations, transactions and investments. To ensure compliance with the rules and principles of Shari'a, Maisarah has a fully independent setup of Shari'a Governance system.

   The Shari'a Compliance and Audit Department have been setup with the purpose of examination and assessment of the extent to which the Institution is observing Shari'a Principles, Fatwas, guidelines and instructions issued by the Shari'a Supervisory Board (SSB) of Maisarah. It also ensures a proper segregation exists between Maisarah and the parent bank with regards to services, products, funds and investments. During 2022, the department has conducted 6 audits as compared to the target of 6. The Unit comes under the direct supervision of SSB. The SSB met 5 times (including 1 meeting with Board of Directors) in the year 2022.

2. Maisarah is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

3. Shari'a rulings issued by the Shari'a Supervisory Board is binding on Maisarah.

7.2.2. QUANTITATIVE DISCLOSURE

1. Violation of Shari'a Compliance During the Year

During the year, Maisarah recorded and transferred to charity the Non Shari'a compliant income of RO 7 thousand in respect of rebate received on nostro accounts, late payments from customers and income from placement with Central Bank.

2. Zakat Contributions of the Islamic Window

In accordance with the Policy of Maisarah, the responsibility to pay Zakat is on the shareholders & IAH.

3. Remuneration of Shari'a Board Members

Details	2022 RO'000	2021 RO'000
Chairman		
- Remuneration proposed	**9**	9
- Sitting fees paid	**4**	3
Other Members		
- Remuneration proposed	**27**	29
- Sitting fees paid	**9**	9

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

8. BASEL III

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio and net stable funding ratio to CBO with effect from March 2014.

8.1. CAPITAL DISCLOSURE

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
	Common Equity Tier 1 Capital: Instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus [Note 1]	70,000	-
2	Retained Earnings	28,362	-
3	Accumulated other comprehensive income (and other reserves)	-	-
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
	Public Sector capital injections grandfathered until 1 January 2018	-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	-	-
6	**Common Equity Tier 1 Capital before regulatory adjustments**	98,362	-
	Common Equity Tier 1 Capital: Regulatory Adjustments		
7	Prudential valuation adjustments	1,968	-
8	Goodwill (net of related tax liability) *	-	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability) *	-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
11	Cash Flow hedge reserve	-	-
12	Shortfall of provisions to expected loss	-	-
13	Securitization gain on sale (as set out in para 14.9 of CP-1)	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-
15	Defined benefit pension fund net assets	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross holdings in common equity	-	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-

Maisarah Islamic Banking Services - window of BankDhofar SAOG
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-
20	Mortgage servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold)	-	-
23	of which: significant investments in the common stock of financials	-	-
24	of which: mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-
26	National specific regulatory adjustments	-	-
	Regulatory adjustments applied to common equity Tier 1 in respect of amount subject to pre-Basel III treatment	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
27	Regulatory adjustments applied to common equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-
28	**Total regulatory adjustments to common equity Tier 1**	1,968	-
29	**Common Equity Tier 1 capital (CET 1)**	96,394	-
	Additional Tier 1 Capital: Instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-
31	of which: classified as equity under applicable accounting standards	-	-
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
34	Additional Tier 1 instruments (and CET 1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT 1)	-	-
35	of which: instruments issued by subsidiaries subject to phase out	-	-
36	**Additional Tier 1 capital before regulatory adjustments**	-	-

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments (RO '000)		Amount Subject to Pre-Basel III treatment
Additional Tier 1 Capital: Regulatory Adjustments			
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross holdings in Additional Tier 1 instruments	-	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments	-	-
	Regulatory adjustments applied to Additional Tier 1 in respect of amount subject to pre-Basel III treatment	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43	**Total regulatory adjustments to Additional Tier 1**	-	-
44	**Additional Tier 1 capital (CET 1)**	-	-
45	**Tier 1 capital (T1 = CET 1 + AT 1)**	96,394	-
Tier 2 capital: Instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
47	Directly issued capital instruments subject to phase out from Tier 2	-	-
48	Tier 2 instruments (and CET 1 and AT 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
49	of which: instruments issued by subsidiaries subject to phase out	-	-
50	Provisions and Cumulative fair value gains on available for sale instruments	6,553	-
51	**Tier 2 capital before regulatory adjustments**	6,553	-
Tier 2 capital: Regulatory Adjustments-			
52	Investments in own Tier 2 instruments	-	-

Maisarah Islamic Banking Services - window of BankDhofar SAOG
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments (RO '000)		Amount Subject to Pre-Basel III treatment
53	Reciprocal cross holdings in Tier 2 instruments	-	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
55	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56	National specific regulatory adjustments	-	-
	Regulatory adjustments applied to Tier 2 in respect of amount subject to pre-Basel III treatment	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
57	**Total Regulatory Adjustments to Tier 2 capital**	-	-
58	**Tier 2 Capital (T 2)**	6,5536	-
59	**Total Capital (TC = T 1 + T 2)**	102,947	-
	Risk Weighted Assets in respect of amounts subject to pre-Basel III treatment	-	-
	of which: (insert name of adjustment)	-	-
	of which: (insert name of adjustment)	-	-
60	**Total Risk Weighted Assets (60a + 60b + 60c)**	617,806	-
60a	of which: Credit Risk Weighted Assets	541,475	-
60b	of which: Market Risk Weighted Assets	4,717	-
60c	of which: Operational Risk Weighted Assets	71,614	-
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.60%	-
62	Tier 1 (as a percentage of risk weighted assets)	15.60%	-
63	Total capital (as a percentage of risk weighted assets)	16.66%	-
64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/ D-SIB buffer requirements expressed as a percentage of risk weighted assets)	8.25%	-
65	of which: capital conservation buffer requirement	1.25%	-

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
66	of which: bank specific countercyclical buffer requirement	0.00%	-
67	of which: D-SIB/ G-SIB buffer requirements	0.00%	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	7.35%	-
National Minima (if different from Basel III)			
69	National common equity Tier 1 minimum ratio (if different from Basel III minimum)	NA	-
70	National Tier 1 minimum ratio (if different from Basel III minimum)	NA	-
71	National total capital minimum ratio (if different from Basel III minimum)	NA	-
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	-
73	Significant investments in the common stock of financials	-	-
74	Mortgage servicing rights (net of related tax liability)	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	6,553	-
77	Cap on inclusion of provisions in Tier 2 under standardized approach	6,768	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET 1 instruments subject to phase out arrangements	NA	-
81	Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	NA	-
82	Current cap on AT 1 instruments subject to phase out arrangements	NA	-
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	NA	-
84	Current cap on T 2 instruments subject to phase out arrangements	NA	-
85	Amount excluded from T 2 due to cap (excess over cap after redemptions and maturities)	NA	-

Maisarah Islamic Banking Services - window of BankDhofar SAOG
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2022

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Summarized Capital Adequacy is as follows:

	CA Report 1 (For CBO Use only)	RO ' 000
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	98,362
2	Regulatory Adjustments to CET1	1,968
3	CET1	96,394
4	Additional Tier 1 Capital (AT1) before Regulatory Adjustments	-
5	Regulatory Adjustments to AT1	-
6	AT1	-
7	Tier 1 Capital (7=3+6) (minimum at 0.625%)	96,394
8	Tier 2 Capital before Regulatory Adjustments	6,553
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	6,553
11	Total Capital (11=7+10)	102,947
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	617,806
13	Credit Risk Weighted Assets	541,475
14	Market Risk Weighted Assets	4,717
15	Operational Risk Weighted Assets	71,614
16	CET1 (as a percentage of TRWA) (in %)	15.60
17	Tier 1 (as a percentage of TRWA) (in %)	15.60
18	Total capital (as a percentage of TRWA) (in %)	16.66

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation:			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2022	As at Period End - 31.12.2022	
Assets			
Cash & Balances with CBO	**14,380**	-	-
Balances with bank and money at call and short notice	**13,819**	-	-
Investments:	**92,600**	-	-
Of which Held to Maturity	-	-	-
Out of investments in Held to Maturity:	-	-	-
Investments in Subsidiaries	-	-	-
Investments in Associates & Joint Ventures	-	-	-
Of which Available for Sale	92,600	-	-
Out of investments in Available for Sale:	-	-	-
Investments in Subsidiaries	-	-	-
Investments in Associates & Joint Ventures	-	-	-
Of which Held for Trading	-	-	-
Loans & Advances	**555,481**	-	-
Of which,	-	-	-
Loans & Advances to domestic banks	-	-	-
Loans & Advances to Non-Resident Banks	-	-	-
Loans & Advances to domestic customers	535,510	-	-
Loans & Advances to Non-Resident Customers for domestic operations	-	-	-
Loans & Advances to Non-Resident Customers for operations abroad	-	-	-
Loans & Advances to SMEs	19,971	-	-

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation:			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2021	As at Period End - 31.12.2021	
Financing from Islamic Banking Window			
Fixed Assets	**1,126**	-	-
Other Asset	**12,958**	-	-
Of which,	-	-	-
Goodwill & Intangible Assets	-	-	a
Out of which	-	-	-
Goodwill	-	-	-
Other Intangibles (excluding MSRs)	-	-	-
Deferred Tax Assets	-	-	-
Goodwill on Consolidation	-	-	-
Debit balance in Profit & Loss Account	-	-	-
Total Assets	**690,364**	-	-
Capital & Liabilities	-	-	-
Paid up capital	**70,000**	-	-
of which:	-	-	-
Amount eligible for CET 1	70,000	-	h
Amount eligible for AT1	-	-	if
Reserves & Surplus	-	-	j
Share Premium	-	-	k
Legal Reserve	-	-	l
Subordinated loan reserve	-	-	m

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation:			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2021	As at Period End - 31.12.2021	
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I)	(526)	(526)	n
Retained Earnings (The proposed dividend payment amount is excluded from retained earnings)	28,362	28,362	o
Total Capital	**97,836**	-	-
Deposits	**472,195**	-	-
Of which,	-	-	-
Deposit from Banks	-	-	-
Customer Deposits	472,195	-	-
Deposit of Islamic Banking Window	-	-	-
Other deposits - (Please specify)	-	-	-
Borrowings	**93,655**	-	-
Of which,	-	-	-
From CBO	-	-	-
From Banks (includes borrowing from HO)	93,655	-	-
From other Institutions & Agencies	-	-	-
Borrowings in the form of bonds, debentures & Sukuks	-	-	-
Others (Please specify) (Subordinated Loans)	-	-	-
Other liabilities & provisions	**26,678**	**-**	-
Of which,	-	-	-
DTLs related to goodwill	-	-	-
DTLs related to intangible assets	-	-	-
Total Liabilities	**690,364**	**27,836**	**-**

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Common Equity Tier 1 capital: instruments and reserves			
Sr. No.		Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus 'Allocated Capital to Window from Core Capital'	70,000	h
2	Retained earnings	28,362	k, l, m, o
3	Accumulated other comprehensive income (and other reserves)	-	-
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	Common Equity Tier 1 capital before regulatory adjustments	98,362	-
7	Prudential valuation adjustments	(1,968)	n
8	Goodwill (net of related tax liability)	-	a

8.2. LIQUIDITY COVERAGE RATIO

MIBS has also adopted Basel III liquidity standards and is estimating the liquidity coverage ratio (LCR). The LCR is defined as the proportion of high-quality liquid assets to total net cash outflows over the next 30 days. The high-quality liquid assets include cash; reserves held with CBO; investment in CBO Certificate of Deposits, CBO Treasury Bills, Government Sovereign Sukuk and Sovereign Treasury Bills. LCR is a measure of adequacy of liquid assets that will enable the Bank to survive an acute stress scenario lasting for 30 days.

8. BASEL III (continued)

8.2. LIQUIDITY COVERAGE RATIO (continued)

The disclosure Liquidity Coverage Ratio for Maisarah is as follows:

Sl. No.		Total Unweighted Value (annual average) RO 000	Total Weighted Value (annual average) RO 000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)	-	90,375
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	76,256	5,613
3	Stable deposits	37,791	1,766
4	Less stable deposits	38,465	3,847
5	Unsecured wholesale funding, of which:	150,606	61,314
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	150,606	61,314
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	33,039	3,044
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	33,039	3,044
14	Other contractual funding obligations	10,106	10,106
15	Other contingent funding obligations	53,015	2,651
16	**TOTAL CASH OUTFLOWS**	**-**	**82,728**
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	48,087	20,616
19	Other cash inflows	14,756	14,756
20	**TOTAL CASH INFLOWS**	**62,843**	**35,372**
			Total Adjusted Value
21	**TOTAL HQLA**	**-**	**88,256**
22	**TOTAL NET CASH OUTFLOWS**	**-**	**47,356**
23	**LIQUIDITY COVERAGE RATIO (%)**	**-**	**186.37%**

8. BASEL III (continued)

8.2. LIQUIDITY COVERAGE RATIO (continued)

The above disclosed values for high quality liquid assets, cash outflows and cash inflows are the arithmetic average of the average LCR reporting done on the quarterly basis.

The average LCR position for Maisarah as at 31 December 2022 is 186.3% (2021: 184.37%).

Further to the above, LCR is also monitored for US Dollar book of the Bank as a Consolidated entity and Maisarah on standalone basis. The exposure in US Dollar assets as a proportion of total assets (all currencies) at the Maisarah level is at 5% as at 31 December 2022 as compared to 7.1% as at 31 December 2021.

8.3. NET STABLE FUNDING RATIO

In terms of CBO guidelines, the standard for NSFR has become effective from 1 January 2018, with a minimum ratio of 100%. Bank has adopted Basel III liquidity standards and is reporting the Net Stable Funding Ratio to the Central Bank of Oman (CBO) with effect from March 2013. The NSFR is defined as the proportion of total Available Stable Funding to total Required Stable funding over the next 1 year.

The disclosure for Net Stable Funding Ratio for Maisarah is as follows:

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
1	Capital:	302,046	302,046	-	-	302,046
2	Regulatory capital	94,558	-	-	-	94,558
3	Other capital instruments	207,488	-	-	-	207,488
4	Retail deposits and deposits from small business customers:	77,253	9,509	9,071	-	89,769
5	Stable deposits	38,266	810	1,510	-	38,743
6	Less stable deposits	38,987	8,699	7,562	-	51,026
7	Wholesale funding:	127,929	39,381	60,570	116,190	117,469
8	Operational deposits	2,558	-	-	-	1,279
9	Other wholesale funding	125,371	39,381	60,570	-	116,190
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	-	-	-	-
12	NSFR derivative liabilities	-	-	-	-	-

8. BASEL III (continued)

8.3. NET STABLE FUNDING RATIO (continued)

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
13	All other liabilities and equity not included in above categories	30,631	-	-	-	-
14	**Total ASF**	**-**	**-**	**-**	**-**	**509,284**
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	3,217
16	Deposits held at other financial institutions for operational purposes	1,819	-	-	-	909
17	Performing loans and securities:	-	5,168	147,926	261,779	390,324
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	-
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	-	5,168	147,926	-	79,315
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	-	-	242,882	206,450
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	136,148	88,496

8. BASEL III (continued)

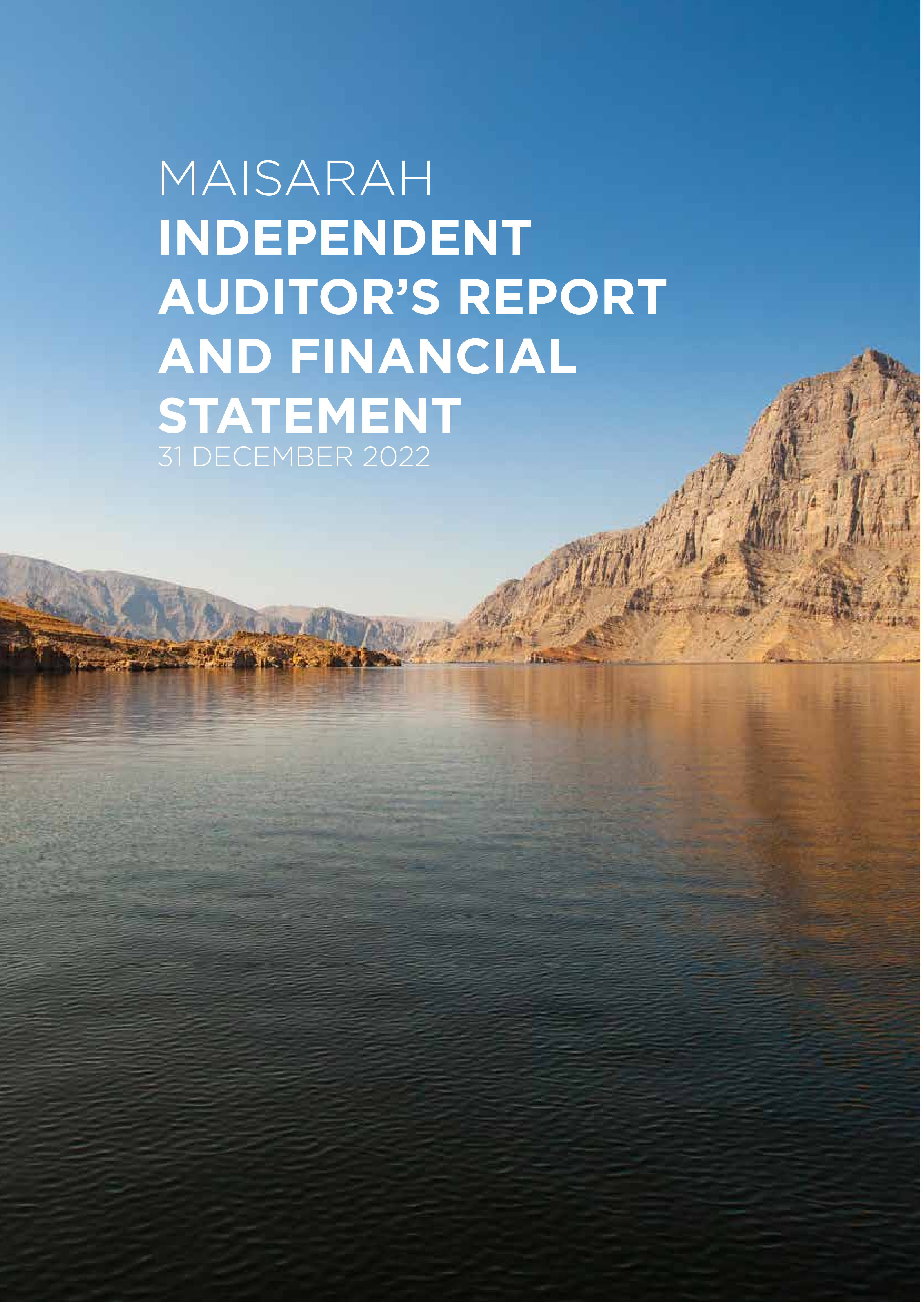
8.3. NET STABLE FUNDING RATIO (continued)

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	18,897	16,063
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other Assets:	-	-	-	26,329	26,329
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	-	-	26,329	26,329
32	Off-balance sheet items	-	-	-	-	4,163
33	**TOTAL RSF**	**-**	**-**	**-**	**-**	**424,942**
34	**NET STABLE FUNDING RATIO (%)**	**-**	**-**	**-**	**-**	**119.85%**

The above disclosed values for required stable funding and the available stable funding are the arithmetic average of the average NSFR reporting done on quarterly basis. The average NSFR year-end position for Maisarah as at 31 December 2022 is at 119.85% (2021: 112.2%).

MAISARAH **INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENT**

31 DECEMBER 2022



pwc

Independent Auditor's Report to the Board of Directors of Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - Window

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements present fairly, in all materials respects, the financial position of the Maisarah Islamic Banking Services - Window ('the Window') of Bank Dhofar SAOG ('the Bank') as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman ("CBO").

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2022;
- the statement of comprehensive income for the year then ended;
- the statement of changes in owners' equity for the year then ended;
- the statement of sources and uses of charity fund for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Window in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics for Accountants and Auditors of Islamic Financial Institutions.

Emphases of matter

We draw attention to the fact that, as described in note 1, the Window of the Bank is not a separate legal entity. These financial statements, therefore, represent the Maisarah Islamic Banking Services - Window which is not a separate stand-alone legal entity. We also draw attention to note 3.23 whereby taxation in respect of the results of the Window are borne by the Bank and not recharged to the Window. Our opinion is not modified with respect to these matters.

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290, Commercial Register No. 1230865 Tax Card No 8055889

pwc

Independent Auditor's Report to the Board of Directors of Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - Window (continued)

Other information

The Bank's Board of Directors are responsible for the other information. The other information comprises the Annual Report of the Shari'a Supervisory Board, Management Discussion and Analysis Report and Disclosure Requirements under Pillar III of Basel II and Basel III (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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 obtained, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Bank's Board of Directors for the financial statements

These financial statements and the Window's undertaking to operate in accordance with Islamic Shari'a Rules and Principles, as determined by the Shari'a Supervisory Board, are the responsibility of the Bank's Board of Directors.

The Bank's Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the Financial Accounting Standards issued by the AAOIFI as modified by the CBO and the relevant requirements of the CBO, and for such internal control as the Bank's 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 Bank's Board of Directors are responsible for assessing the 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 Bank's Board of Directors either intend to liquidate the Window or to cease operations, or have no realistic alternative but to do so.

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

pwc

Independent Auditor's Report to the Board of Directors of Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - Window (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI 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 the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgement 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 Window's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Board of Directors.
- Conclude on the appropriateness of the Bank's 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 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Window to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Bank's 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.

pwc

Independent Auditor's Report to the Board of Directors of Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - Window (continued)

Report on other legal and regulatory and Shari'a requirements

As required by clause no. 1.4.3 of Title 3 'Accounting Standards and Auditor Reports' of Islamic Banking Regulatory Framework, we report that, we have:

a) received all required information and explanations to prepare the report; and
b) carried out any other procedures considered necessary as required by AAOIFI and the Central Bank of Oman.

Further we report that the Window has complied with the Islamic Shari'a Principles and Rules as determined by the Sharia' Supervisory Board of the Window during the period under audit.

PricewaterhouseCoopers LLC
Muscat, Sultanate of Oman
2 March 2023

برايس وترهاوس كوبرز ش.م.م
C.R. No 1230865
PricewaterhouseCoopers LLC

Statement of Financial Position

For the year ended 31 December 2022

2022 USD'000	2021 USD'000		Note	2022 RO'000	2021 RO'000
		Assets			
37,351	61,634	Cash and balances with Central Bank of Oman	5	**14,380**	23,729
35,888	35,922	Due from banks and financial institutions	6	**13,817**	13,830
48,205	75,143	Murabaha and other receivables	7	**18,559**	28,930
24,405	45,655	Mudaraba financing	8	**9,396**	17,577
972,041	877,390	Diminishing Musharaka financing	9	**374,236**	337,795
240,369	207,694	Investments	10	**92,542**	79,962
196,816	159,582	Wakala	11	**75,774**	61,439
163,829	116,628	Ijarah Muntahia Bittamleek	12	**63,074**	44,902
1,691	1,023	Property and equipment	13	**651**	394
1,234	1,743	Intangibles	14	**475**	671
30,963	176,391	Other assets	15	**11,921**	67,911
1,752,792	1,758,805	**Total assets**		**674,825**	677,140
		Liabilities, quasi equity and owners' equity			
		Liabilities			
92,091	59,192	Current accounts	16	**35,455**	22,789
102,351	98,075	Qard Hasan from Head office	17	**39,405**	37,759
28,802	140,759	Other liabilities	18	**11,089**	54,192
223,244	298,026	**Total liabilities**		**85,949**	114,740
		Quasi equity			
140,909	155,909	Wakala inter bank deposits	19	**54,250**	60,025
993,758	908,533	Wakala customer deposits	20	**382,597**	349,785
140,761	167,483	Equity of investment accountholders	21	**54,193**	64,481
1,275,428	1,231,925	**Total quasi equity**		**491,040**	474,291
		Owners' equity			
181,818	181,818	Allocated share capital	22	**70,000**	70,000
(1,366)	(4,964)	Investment revaluation reserve		**(526)**	(1,911)
73,668	52,000	Retained earnings		**28,362**	20,020
254,120	228,854	**Total owners' equity**		**97,836**	88,109
1,752,792	1,758,805	**Total liabilities, quasi equity and owners' equity**		**674,825**	677,140
43,792	52,452	**Contingent liabilities excluding financing and capital commitments**	31(a)	**16,860**	20,194

The financial statements including notes and other information on pages 342 to 415 were approved by the Board of Directors on 25 January 2023 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 - Page 331 - 334

Statement of Comprehensive Income

For the year ended 31 December 2022

2022 USD'000	2021 USD'000		Note	2022 RO'000	2021 RO'000
		Income			
82,416	75,184	Income from Islamic finances and receivables	24	**31,730**	28,946
13,257	11,868	Income or gains from investments	25	**5,104**	4,569
174	190	Income on Wakala placements		**67**	73
95,847	87,242			**36,901**	33,588
		Less:			
(2,566)	(4,213)	Return on equity of investment accountholders before Maisarah's share as Mudarib		**(988)**	(1,622)
1,270	1,086	Maisarah's share as Mudarib		**489**	418
(34,532)	(31,626)	Return on customer Wakala deposits	26	**(13,295)**	(12,176)
(5,707)	(4,618)	Return on inter bank Wakala deposit		**(2,197)**	(1,778)
(41,535)	(39,371)			**(15,991)**	(15,158)
54,312	47,871	**Maisarah's share in income from investment as a Mudarib and Rabul Maal**		**20,910**	18,430
4,847	3,613	Revenue from banking services		**1,866**	1,391
350	280	Foreign exchange gain – net		**135**	108
317	538	Other revenues		**122**	207
59,826	52,302	**Total revenue**		**23,033**	20,136
(15,473)	(15,862)	Staff costs	27	**(5,957)**	(6,107)
(13,119)	(5,899)	General and administrative expenses	28	**(5,051)**	(2,271)
(1,119)	(1,068)	Depreciation and amortisation	13,14	**(431)**	(411)
(29,711)	(22,829)	**Total expenses**		**(11,439)**	(8,789)
(8,447)	(6,301)	Net impairment on financial instruments	29.3	**(3,252)**	(2,426)
21,668	23,172	**Profit for the year**		**8,342**	8,921
		Other comprehensive income for the year			
		Items that are or may not be reclassified to profit or loss			
3,598	433	Income from change in fair value of Debt instrument through equity	10	**1,385**	167
3,598	433	**Other comprehensive income for the year**		**1,385**	167
25,266	23,605	**Total comprehensive income for the year**		**9,727**	9,088

The attached notes on pages 342 to 415 form an integral part of these financial statements.

Independent auditors report – Pages 331-334.

Statement of changes in owners' equity

For the year ended 31 December 2022

	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	70,000	(526)	28,362	97,836
Balance as at 31 December 2022	70,000	(526)	28,362	97,836

	31 December 2022			
	Allocated share capital USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000
Balance at 31 December 2021	181,818	(4,964)	52,000	228,854
Total comprehensive income for the year				
Net profit for the year	-	-	21,668	21,668
Other comprehensive income for the year				
Fair value change on debt investments through equity	-	3,598	-	3,598
Total comprehensive income	-	3,598	21,668	25,266
Balance as at 31 December 2022	181,818	(1,366)	73,668	254,120

Statement of changes in owners' equity

For the year ended 31 December 2022

	31 December 2021			
	Allocated share capital RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
Balance at 31 December 2020	70,000	(2,078)	11,099	79,021
Total comprehensive income for the year				
Net profit for the year	-	-	8,921	8,921
Other comprehensive income for the year				
Fair value change on debt investments through equity	-	167	-	167
Total comprehensive income	-	167	8,921	9,088
Balance as at 31 December 2021	70,000	(1,911)	20,020	88,109

	31 December 2021			
	Allocated share capital USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000
Balance at 31 December 2020	181,818	(5,397)	28,828	205,249
Total comprehensive income for the year				
Net profit for the year	-	-	23,172	23,172
Other comprehensive income for the year				
Fair value change on debt investments through equity	-	433	-	433
Total comprehensive income	-	433	23,172	23,605
Balance as at 31 December 2021	181,818	(4,964)	52,000	228,854

The attached notes on pages 342 to 415 form an integral part of these financial statements.

Independent auditors report – Pages 331-334.

Statement of sources and uses of charity fund

For the year ended 31 December 2022

2022 USD'000	2021 USD'000		2022 RO'000	2021 RO'000
		Sources of charity funds		
13	17	Undistributed charity funds at beginning of the year	**5**	7
18	13	Shari'a non-compliant income	**7**	8
31	30	Total sources of funds during the year	**12**	12
		Uses of charity funds		
(13)	(17)	Distributed to charity organizations	**(5)**	(7)
(13)	(17)	Total uses of funds during the year	**(5)**	(7)
18	13	**Undistributed charity funds at end of the year**	**7**	5

Statement of Cash Flows

For the year ended 31 December 2022

2022 USD'000	2021 USD'000		2022 RO'000	2021 RO'000
		Cashflows from operating activities		
21,668	23,172	Net loss for the period before tax	**8,342**	8,921
		Adjustments for:		
1,119	1,068	Depreciation and amortisation	**431**	411
12,223	7,961	Depreciation on Ijarah assets	**(4,706)**	3,065
-	(13)	Gain on sale of property and equipment	**-**	(5)
8,447	6,301	Net impairment on financial instruments	**3,252**	2,426
133	130	Amortisation of premium / (discount) on investment	**51**	50
31	29	Profit equalisation reserve and Investment risk reserve	**12**	11
43,621	38,648	**Operating profit before changes in operating assets and liabilities**	**7,382**	14,879
		Operating assets and liabilities:		
27,008	(13,488)	Murabaha and other receivables	**10,398**	(5,193)
(69,296)	(4,868)	Ijarah Muntahia Bitamleek assets	**(26,679)**	(1,874)
9,844	(8)	Proceeds from sale in Ijarah Muntahia Bitamleek assets	**13,202**	(3)
(104,408)	997	Diminishing Musharaka financing	**(40,197)**	384
21,771	(11,657)	Mudaraba financing	**8,382**	(4,488)
(37,982)	(24,901)	Wakala financing	**(14,623)**	(9,587)
25,538	(14,571)	Other assets	**9,832**	(5,610)
8,849	5,826	Other liabilities	**3,407**	2,243
5,052	1,712	Qard Hasan from Head Office	**1,945**	659
(70,003)	(22,310)	**Net cash used in operating activities**	**(26,951)**	(8,590)
		Cash flows from investing activities		
(29,075)	-	Purchase of investment	**(11,194)**	-
(914)	(356)	Purchase of property and equipment	**(352)**	(137)
(694)	(925)	Purchase of intangibles	**(267)**	(356)
(30,683)	(1,281)	**Net cash used in investing activities**	**(11,813)**	(493)

Statement of Cash Flows

For the year ended 31 December 2022

2022 USD'000	2021 USD'000		2022 RO'000	2021 RO'000
		Cash flows from financing activities		
32,898	(4,442)	Current account	**12,666**	(1,710)
(15,000)	(105,909)	Due to banks	**(5,775)**	(40,775)
85,226	141,501	Customer Wakala deposit	**32,812**	54,478
(26,753)	28,538	Unrestricted investment account holders	**(10,300)**	10,987
76,371	59,688	**Net cash (used) in / generated from financing activities**	**29,403**	22,980
(24,315)	36,097	**(Decrease)/increase in cash and cash equivalents**	**(9,361)**	13,897
97,559	61,462	Cash and cash equivalents at the beginning of the period	**37,560**	23,663
73,244	97,559	Cash and cash equivalents at the end of the period	**28,199**	37,560
		Cash and cash equivalents at the end of the year comprise:		
37,351	61,634	Cash and balances with CBO	**14,380**	23,729
35,893	35,925	Due from banks and financial institutions	**13,819**	13,831
73,244	97,559		**28,199**	37,560

During the year ended 31 December 2022, there were no principal non-cash transactions.

The attached notes on pages 342 to 415 form an integral part of these financial statements.

Independent auditors report - Pages 331-334.

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 10 (2021: 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 for impairment of financing and other receivables, and investments (refer note 3.10); 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.

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. BASIS OF PREPARATION (continued)

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 2022, the accounting policies applied in these financial statements are the same as those applied in the last financial statements..

2.5.1 FAS 38 Wa'ad, Khiyar and Tahawwut

Maisarah has adopted FAS 38 Wa'ad, Khiyar and Tahawwut effective from the financial periods beginning on January 2022. Upon the adoption of the standard there is no significant impact on Maisarah' financial statements. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to Shari'a compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard applies to accounting and financial reporting for all transactions involving Wa'ad, Khiyar or Tahawwut arrangements carried out under Shari'a principles and rules.

2.6 New standards, interpretations and amendments

For the year ended 31 December 2022, 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 2022.

Standards issued and effective from 1 January 2022

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 2022:

- FAS 38 – Wa'ad, Khiyar and Tahawwut

Standards issued but not effective from 1 January 2022

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 2023 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

2. BASIS OF PREPARATION (continued)

2.6 New standards, interpretations and amendments (continued)

Standards issued but not effective from 1 January 2022 (continued)

FAS 39 Zakah

AAOIFI has issued FAS 39 Zakah in 2021. 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. This standard applies to an institution with regard to the recognition, presentation and disclosure of Zakah attributable to relevant stakeholders. The standard will be effective from the financial periods beginning on or after 1 January 2023 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

FAS 40 Financial Reporting for Islamic Finance Windows

AAOIFI has issued FAS 40 Financial Reporting for Islamic Finance Windows in 2021. 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.

3. SIGNIFICANT 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Wakala (continued

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.

3.8 Ijarah Muntahia Bittamleek assets

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.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Investments (continued)

- 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.

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 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'.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Impairment (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Impairment (continued)

Measurement of ECL (continued)

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.

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.

3. SIGNIFICANT 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Impairment (continued)

Definition of default (continued)

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 34.3.3.

3.15 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:

	Year
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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3.22.1Murabaha 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.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 Revenue recognition (continued)

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.

3.22.10Profit suspension

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

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 1,251 thousand (2021: RO 1,338 thousand). Had the taxation been allocated, following would have been the impact:

	2022 RO'000	2021 RO'000
Profit after tax	**7,091**	7,583
Retained earnings	**21,738**	14,647
Capital adequacy ratio	**15.59%**	14.21%

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Maisarah, which meets quarterly and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years,

S. 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

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

1. 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.

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

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. Taxation

Judgement applied by Maisarah in respect of taxation is covered under 3.23.

5. Cash and balances with Central Bank of Oman

	2022 RO'000	2021 RO'000
Cash in hand	**2,432**	2,512
Balances with Central Bank of Oman	**11,948**	21,217
	14,380	23,729

6. Due from banks and financial institutions

	2022 RO'000	2021 RO'000
Wakala placement – jointly financed	**11,550**	11,550
Current clearing account – self financed	**2,269**	2,281
	13,819	13,831
Less: Impairment allowance for ECL (note 29)	**(2)**	(1)
	13,817	13,830

At 31 December 2022, placement with one overseas bank individually represented 20% or more of the Islamic window's placements (2021: One bank represented 20% or more).

7. Murabaha and other receivables

	2022 RO'000	2021 RO'000
Gross Murabaha receivables – jointly financed	**21,536**	32,122
Gross Ujrah receivables – jointly financed	**21**	19
	21,557	32,141
Less: Deferred income – jointly financed	**(3,556)**	(3,535)
	18,001	28,606
Credit card receivables – self financed	**822**	612
Less: Profit suspended	**(8)**	(5)
Less: Impairment allowance for ECL (note 29)	**(256)**	(283)
	18,559	28,930

Maisarah Islamic Banking Services - window of BankDhofar SAOG
Notes to the financial statement
For the year ended 31 December 2022

7. Murabaha and other receivables (continued)

Murabaha and other receivables past due but not impaired amounts to RO 920 thousand (2021: RO 3,616 thousand).

	2022 RO'000	2021 RO'000
Deferred income at 1 January	**3,535**	3,661
Sales revenue during the year	**21,592**	29,464
Cost of sales during the year	**(20,142)**	(27,806)
Profit recognised in income	**(1,403)**	(1,512)
Profit waived off	**(23)**	(271)
Profit amortized during the year	**(1,426)**	(1,783)
Profit suspended	**(3)**	(1)
Deferred income at 31 December	**3,556**	3,535

8. Mudaraba financing

	2022 RO'000	2021 RO'000
Mudaraba financing – jointly financed	**9,437**	17,819
Less: Impairment allowance for ECL (note 29)	**(41)**	(242)
	9,396	17,577

At reporting date, there were no Mudaraba financing cases which were past due but not impaired.

9. Diminishing Musharaka financing

	2022 RO'000	2021 RO'000
Diminishing Musharaka – jointly financed	**387,597**	347,400
Less: Impairment allowance for ECL (note 29)	**(13,361)**	(9,605)
	374,236	337,795

Diminishing Musharaka past due but not impaired amounts to RO 69,267 thousand (2021: RO 22,623 thousand).

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

	2022 RO'000	2021 RO'000
Fair value through equity:		
1. Non-monetary debt type instruments		
Local listed Sukuk – jointly financed	**10,576**	9,586
International listed Sukuk – jointly financed	**9,019**	9,019
Sovereign Sukuk – jointly financed	**66,607**	61,507
	86,202	80,112
Less: Impairment provision for ECL (note 29)	**(47)**	(150)
Total debt type Sukuk – jointly financed	**86,155**	79,962
2) Equity type instruments		
Local listed Sukuk – jointly financed	**6,206**	-
International listed Sukuk – jointly financed	**192**	-
	6,398	-
Less: Impairment provision for ECL (note 29)	**(11)**	-
Total equity type Sukuk – jointly financed	**6,387**	-
Total Sukuk – net of impairment	**92,542**	-

During the year movement in investments at fair value through equity:

	2022		
	Non-monetary debt type instruments RO '000	Equity type instruments RO '000	Total RO '000
At 1 January	80,112	-	80,112
Additions	4,012	7,142	11,154
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**

	2021		
	Non-monetary debt type instruments RO '000	Equity type instruments RO '000	Total RO '000
At 1 January	79,995	-	79,995
Additions	-	-	-
Gain / (loss) from change in fair value	167	-	167
Amortisation of discount / premium - net	(50)	-	(50)
At 31 December	**80,112**	**-**	**80,112**

10. Investments (continued)

During the year changes in equity for each level of valuations:

	2022 RO'000	2021 RO'000
Gain on Level 1 investments	**395**	191
Gain / (loss) on Level 2 investments	**990**	(24)
Total gain on investments	**1,385**	167

11. Wakala

	2022 RO'000	2021 RO'000
Wakala – jointly financed	**74,593**	59,608
Profit receivable on Wakala	**1,636**	1,998
Less: Profit suspended	**(2)**	(2)
Less: Impairment allowance for ECL (note 29)	**(453)**	(165)
	75,774	61,439

Wakala past due but not impaired amounts to RO 3,202 thousand (2021: RO 591 thousand).

12. Ijarah Muntahia Bittamleek

	2022 RO'000	2021 RO'000
Cost – jointly financed		
at 1 January	**56,601**	55,973
Additions	**26,679**	1,874
Disposals	**(7,220)**	(1,246)
at 31 December	**76,060**	56,601
Accumulated depreciation – jointly financed		
at 1 January	**(11,389)**	(9,573)
Charge for the year	**(4,706)**	(3,065)
Disposals	**3,430**	1,249
at 31 December	**(12,665)**	(11,389)
Net book value at 31 December	**63,395**	45,212
Less: Impairment allowance for ECL (note 29)	**(321)**	(310)
Net Ijarah Muntahia Bittamleek	**63,074**	44,902

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 1,796 thousand (2021: RO 2,753 thousand).

13. Property and equipment

	2022				
	Furniture, fixtures & equipment RO'000	Motor vehicles RO'000	Computer hardware 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)**
Disposal	**-**	**-**	**-**	**-**	**-**
at 31 December	**(1,314)**	**(79)**	**(365)**	**-**	**(1,758)**
Net book amount at 31 December	**290**	**2**	**92**	**267**	**651**

	2021				
	Furniture, fixtures & equipment RO'000	Motor vehicles RO'000	Computer hardware RO'000	Capital work in progress RO'000	Total RO'000
Cost					
at 1 January	1,450	87	352	18	1,907
Additions	24	-	38	75	137
Disposals / Transfers	-	(6)	-	(42)	(48)
at 31 December	1,474	81	390	51	1,996
Accumulated depreciation					
at 1 January	(1,045)	(77)	(309)	-	(1,431)
Charge for the year	(145)	(5)	(27)	-	(177)
Disposal	-	6	-	-	6
at 31 December	(1,190)	(76)	(336)	-	(1,602)
Net book amount at 31 December	284	5	54	51	394

14. Intangibles

	2022 RO'000	2021 RO'000
Cost		
at 1 January	**2,215**	1,817
Additions	**267**	356
Transfers	**(188)**	42
at 31 December	**2,294**	2,215
Accumulated amortisation		
at 1 January	**(1,544)**	(1,310)
Charge for the year	**(275)**	(234)
at 31 December	**(1,819)**	(1,544)
Net book amount at 31 December	**475**	671

15. Other assets

	2022 RO'000	2021 RO'000
Ijarah rental receivables	**419**	98
Other profit receivables	**10,589**	21,152
Prepayments	**157**	329
Murabaha and Musawama inventory – Jointly financed (15.1)	**3**	14
Advances – Jointly financed	**892**	611
Others	**556**	184
Acceptances	**342**	46,381
	12,958	68,769
Less: Reserve for suspended profit (note 29)	**(1,028)**	(836)
Less: Impairment allowance for ECL on accrued profit (note 29)	**(9)**	(22)
Total	**11,921**	67,911

15.1 During 2021 and 2022, all Murabaha and Musawama inventories are held under the binding promise to purchase.

16. Current accounts

	2022 RO'000	2021 RO'000
Qard hasan current accounts	**30,728**	15,951
Margin accounts	**4,727**	6,838
Total	**35,455**	22,789

17. Due to banks

	2022 RO'000	2021 RO'000
Qard Hasan from Head Office (17.1)	**35,000**	35,000
Current clearing account (17.2)	**4,405**	2,759
Total	**39,405**	37,759

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

	2022 RO'000	2021 RO'000
Payables	**935**	670
Accrued expenses	**3,172**	2,305
Profit payables	**5,259**	3,706
Others	**997**	277
Charity payable	**7**	5
Acceptances	**342**	46,381
Impairment allowance for ECL on non-funded exposure (note 29)	**377**	848
Total	**11,089**	54,192

19. Wakala inter bank deposits

	2022 RO'000	2021 RO'000
Wakala inter bank deposits	**54,250**	60,025
Total	**54,250**	60,025

At 31 December 2022, inter bank borrowings with Bank Dhofar SAOG and Sharjah Islamic Bank represented 20% or more of the Islamic window's due to banks (2021: inter bank borrowings with Bank Dhofar individually represented 20% or more).

20. Wakala customer deposits

	2022 RO'000	2021 RO'000
Wakala customer call account	**118,662**	137,485
Wakala customer term deposits	**263,935**	212,300
Total	**382,597**	349,785

21. Equity of investment accountholders

	2022 RO'000	2021 RO'000
Saving account	**54,143**	64,443
Profit equalisation reserve	**40**	30
Investment risk reserve	**10**	8
Total	**54,193**	64,481

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 2022 and 2021 as follows:

	2022 %	2021 %
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

	2022 RO'000	2021 RO'000
Balance as at 1 January	**30**	22
Apportioned during the year	**10**	8
Balance as at 31 December	**40**	30

21.2 Movement in investment risk reserve

	2022 RO'000	2021 RO'000
Balance as at 1 January	**8**	5
Apportioned during the year	**2**	3
Balance as at 31 December	**10**	8

22. Allocated share capital

During 2021 and 2022, there was no increase in the assigned capital of Maisarah.

23. Fiduciary assets

At reporting date, there were no funds under management with Maisarah.

24. Income from Islamic finances and receivables

	2022 RO'000	2021 RO'000
Murabaha receivables	**1,402**	1,505
Mudaraba	**753**	943
Ijarah muntahia bittamleek – net (24.1)	**3,061**	2,495
Diminishing Musharaka	**22,259**	20,560
Revenue from Wakala	**4,254**	3,436
Musawama	**-**	6
Ujrah fees	**1**	1
Total	**31,730**	28,946

24.1 Depreciation on Ijarah Muntahia Bittamleek amounts to RO 4,706 thousand (2021: RO 3,065 thousand).

25. Income or gains / losses from investments

	2022 RO'000	2021 RO'000
Investments at fair value through equity:		
Income on non-monetary debt type instrument	**4,666**	4,569
Income on equity-type instrument	**438**	-
Total	**5,104**	4,569

26. Return on customer Wakala deposits

	2022 RO'000	2021 RO'000
Return allocated to Wakala depositors	**13,295**	12,175
Hiba for Wakala depositors	**-**	1
Total	**13,295**	12,176

27. Staff costs

	2022 RO'000	2021 RO'000
Salaries and allowances	**5,052**	4,695
Other personnel cost	**861**	1,360
Non-Omani employee terminal benefits	**44**	52
Total	**5,957**	6,107

28. General and administrative expenses

	2022 RO'000	2021 RO'000
Occupancy cost	**611**	686
Operating and administration cost (note 28.1)	**4,440**	1,585
Total	**5,051**	2,271

28.1 During 2022, an increase in cost is mainly due to the change in allocation of indirect cost. Had the same impact of change in accounting estimate for cost sharing by Head Office with Maisarah applied last year, the profit before tax for the year ended 2021 would have been RO 6.78 million.

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 2022 and 2021:

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	(37)	(371)	(47)	(455)

29. Allowance for expected credit losses (continued)

29.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2022 and 2021: (continued)

31 December 2022	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
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

29. Allowance for expected credit losses (continued)

29.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2022 and 2021: (continued)

31 December 2021	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Gross exposure				
Balances with Central Bank of Oman	21,217	-	-	21,217
Due from banks and financial institutions	13,831	-	-	13,831
Murabaha and other receivables	20,750	8,357	111	29,218
Mudaraba financing	8,569	9,250	-	17,819
Diminishing Musharaka financing	260,057	82,997	4,346	347,400
Investments	80,112	-	-	80,112
Wakala financing	23,327	38,193	86	61,606
Ijarah Muntahia Bittamleek	44,754	334	124	45,212
Accrued profit	13,042	7,318	890	21,250
Acceptances	46,327	54	-	46,381
Total funded gross exposure	531,986	146,503	5,557	684,046
Letter of credit / guarantee	10,919	9,275	-	20,194
Financing commitment/unutilised limits	21,273	27,061	-	48,334
Total non-funded gross exposure	32,192	36,336		68,528
Total gross exposure	564,178	182,839	5,557	752,574
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(1)	-	-	(1)
Murabaha and other receivables	(87)	(142)	(59)	(288)
Mudaraba financing	(72)	(170)	-	(242)
Diminishing Musharaka financing	(4,261)	(3,900)	(1,444)	(9,605)
Investments	(150)	-	-	(150)
Wakala	(47)	(94)	(26)	(167)

29. Allowance for expected credit losses (continued)

29.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2022 and 2021: (continued)

31 December 2021	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Ijarah Muntahia Bittamleek	(144)	(86)	(80)	(310)
Accrued profit	(9)	(13)	(836)	(858)
Acceptances	(390)	-	-	(390)
Total funded	(5,161)	(4,405)	(2,445)	(12,011)
Letter of credit / guarantee	(45)	(77)	-	(122)
Financing commitment / unutilised limits	(86)	(250)	-	(336)
Total non-funded	(131)	(327)	-	(458)
Total allowance and profit suspended	(5,292)	(4,732)	(2,445)	(12,469)
Net exposure				
Balances with Central Bank of Oman	21,217	-	-	21,217
Due from banks and financial institutions	13,830	-	-	13,830
Murabaha and other receivables	20,663	8,215	52	28,930
Mudaraba financing	8,497	9,080	-	17,577
Diminishing Musharaka financing	255,796	79,097	2,902	337,795
Investments	79,962	-	-	79,962
Wakala financing	23,280	38,099	60	61,439
Ijarah Muntahia Bittamleek	44,610	248	44	44,902
Accrued profit	13,033	7,305	54	20,392
Acceptances	45,937	54	-	45,991
Total funded net exposure	526,825	142,098	3,112	672,035
Letter of credit / guarantee	10,874	9,198	-	20,072
Financing Commitment / Unutilised limits	21,187	26,811	-	47,998
Total non-funded net exposure	32,061	36,009	-	68,070
Total net exposure	558,886	178,107	3,112	740,105

29. Allowance for expected credit losses (continued)

29.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2022 and 2021: (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:

29. Allowance for expected credit losses (continued)

29.2.1 Comparison of provisions held as per Credit Loss approach 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 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
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8) = 3-5	(9)	(10)
Standard	Stage 1	362,369	3,813	1,651	2,162	358,556	360,718	-	-
	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**	**-**	**-**
Special Mention	Stage 1	14,812	151	228	(77)	14,661	14,584	-	-
	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**	**-**	**-**
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,468	366	419	(53)	1,102	1,049	-	-
Subtotal		**1,468**	**366**	**419**	**(53)**	**1,102**	**1,049**	**-**	**-**
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,690	512	627	(115)	1,178	1,063	-	-
Subtotal		**1,690**	**512**	**627**	**(115)**	**1,178**	**1,063**	**-**	**-**
Loss	Stage 1	-	-	-	-	-	-	-	-
	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**
Other items	Stage 1	176,269	-	160	(160)	176,269	176,109	-	-
	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**
Total	Stage 1	553,450	3,964	2,039	1,925	549,486	551,411	-	-
	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**

29. Allowance for expected credit losses (continued)

29.2.1 Comparison of provisions held as per Credit Loss approach and required as per CBO norms (continued)

At 31 December 2021 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 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
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8) = 3-5	(9)	(10)
Standard	Stage 1	357,457	3,716	4,611	(895)	353,741	352,846	-	-
	Stage 2	101,618	1,010	2,079	(1,069)	100,608	99,539	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		459,075	4,726	6,690	(1,964)	454,349	452,385	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	37,513	379	2,313	(1,934)	37,134	35,200	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		37,513	379	2,313	(1,934)	37,134	35,200	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	163	41	65	(24)	122	98	-	-
Subtotal		163	41	65	(24)	122	98	-	-
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	869	220	270	(50)	649	599	-	-
Subtotal		869	220	270	(50)	649	599	-	-
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,635	1,259	1,274	(15)	2,369	2,361	-	7
Subtotal		3,635	1,259	1,274	(15)	2,369	2,361	-	7
Other items	Stage 1	206,721	-	681	(681)	206,721	206,040	-	-
	Stage 2	43,708	-	340	(340)	43,708	43,368	-	-
	Stage 3	890	-	836	(836)	54	54	-	836
Subtotal		251,319	-	1,857	(1,857)	250,483	249,462	-	836
Total	Stage 1	564,178	3,716	5,292	(1,576)	560,462	558,886	-	-
	Stage 2	182,839	1,389	4,732	(3,343)	181,450	178,107	-	-
	Stage 3	5,557	1,520	2,445	(925)	3,194	3,112	-	843
	Total	752,574	6,625	12,469	(5,844)	745,106	740,105	-	843

29. Allowance for expected credit losses (continued)

29.2.1 Comparison of provisions held as per Credit Loss approach 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

At 31 December 2022 RO'000

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
(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**

29. Allowance for expected credit losses (continued)

29.2.2 Restructured financings (continued)

At 31 December 2021 RO'000

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
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8) = 3-5	(9)	(10)
Classified as performing	Stage 1	530	3	15	(12)	527	515	-	-
	Stage 2	15,636	149	1,055	(906)	15,487	14,581	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		16,166	152	1,070	(918)	16,014	15,092	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	784	196	247	(51)	433	537	-	155
Subtotal		784	196	247	(51)	433	537	-	155
Total	Stage 1	530	3	15	(12)	527	515	-	-
	Stage 2	15,636	149	1,055	(906)	15,487	14,581	-	-
	Stage 3	784	196	247	(51)	433	537	-	155
	Total	16,950	348	1,317	(969)	16,447	15,633	-	155

* Net of provisions and reserve profit as per CBO norms.

Asset Classification	31 December 2022		
	As per CBO Norms RO'000	As per CL RO'000	Difference 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%

29. Allowance for expected credit losses (continued)

29.2.2 Restructured financings (continued)

Asset Classification	31 December 2021		
	As per CBO Norms RO'000	As per CL RO'000	Difference RO'000
Impairment loss charged to statement of profit or loss	215	2,426	(2,211)
Provision required as per CBO norms including reserve profit/held	7,468	13,312	(5,844)
Gross non-performing financing (percentage)	0.93%	0.93%	0.00%
Net non-performing financing (percentage)	0.63%	0.62%	0.01%

29.3 Following tables show the movement in impairment allowance for the year:

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**

31 December 2021	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Impairment allowance at beginning	2,929	4,765	2,137	9,831
Charge for the year - Stage 1	2,363	-	-	2,363
Charge for the year - Stage 2	-	(33)	-	(33)
Charge for the year - Stage 3	-	-	124	124
Reversal of charge - Stage 3	-	-	(28)	(28)
Net charge for the year	2,363	(33)	96	2,426
Impairment allowance at end before profit suspended	5,292	4,732	2,233	12,257
Add: Increase in profit suspended	-	-	212	212
Impairment allowance at end	5,292	4,732	2,445	12,469

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::

	2022 RO'000	2021 RO'000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**149**	635
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**15,055**	236
Other related parties	**29,000**	-
Total deposits and other accounts	**44,055**	236
Remuneration paid to Shari'a Board members & Shari'a Supervisor		
Chairman		
– remuneration	**9**	9
– sitting fees paid	**3**	3
Other Members		
– remuneration	**27**	29
– sitting fees paid	**9**	9
	48	50
Other transactions		
Rental payment to a related party	**245**	294
Income from finance to related parties	**8**	19
Profit expense on deposits from related parties	**761**	2
Key management compensation		
Salaries and other benefits	**568**	653

At 31 December 2022, profit rate for finances range from 3.5% to 5.0% (2021: 2.0% to 5.0%), and profit rate for deposits range from 0.0% to 4.6% (2021: 0.0% to 4.8%).

31. Contingent liabilities and commitments

1. Credit related contingent items

Letters of credit and other commitments for which there are corresponding customer liabilities:

	2022 RO'000	2021 RO'000
Letters of credit	**2,447**	6,492
Guarantees	**14,413**	13,702
Total	**16,860**	20,194

31. Contingent liabilities and commitments (continued)

2 Capital and investment commitments

	2022 RO'000	2021 RO'000
Contractual commitments for property and equipment	**2,177**	886

3 The unutilised limits of Maisarah's funded and non-funded exposure for the year ended 31 December 2022 amounts to RO 100,253 thousand (2021: 50,730 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:

	Contract / Notional Amount by term to Maturity			
Forward exchange contracts	**within 3 months RO'000**	**4-12 months RO'000**	**more than 12 months RO'000**	**Total RO'000**
31 December 2022				
Currency forward - purchase contracts	**96,250**	**7,700**	**-**	**103,950**
Currency forward - sale contracts	**96,250**	**7,708**	**-**	**103,958**

	Contract / Notional Amount by term to Maturity			
Forward exchange contracts	**within 3 months RO'000**	**4-12 months RO'000**	**more than 12 months RO'000**	**Total RO'000**
31 December 2021				
Currency forward - purchase contracts	2,695	30,030	-	32,725
Currency forward - sale contracts	2,695	30,130	-	32,825

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:

33. Fair value information (continued)

- 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).

	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**

	2021			
Fair value information	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Total RO'000**
Investments at fair value through equity	61,507	18,605	-	80,112

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.

34. Financial risk management (continued)

Credit risk (continued)

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.

34.1 Impact of Coronavirus (COVID) Pandemic

The impact of coronavirus pandemic has subsided to certain extent and is relatively stable now. The number of Covid cases has declined considerably and the levels remain far below those of prior surges. However, the disruption to business and economic activities throughout various geographies around the globe continues. The pandemic has slowed down trade and economic activities with large economies still facing supply disruption and rise in energy cost. The Ukraine-Russia war has further added to the uncertainties around economic challenges faced by various countries. Accordingly, the fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

34.2 Government measures

The Government of Oman and Central Bank of Oman have taken slew of measures to control the pandemic and improve the economic conditions over the last 3 years. This include providing necessary support to affected borrowers particularly Small and Medium Enterprises (SME), wherein CBO allowed deferment of financing instalments / profit for affected customers and the availability of the deferment, without adversely affecting the risk classification of such financing. All effected customers (Corporate, SME and Retail) who have availed / are availing the financing deferment can be rescheduled / restructured as per CBO circular till 30.09.2022. The restructuring / rescheduling implemented include rescheduling of repayments, recovery of profit accrued during deferment period (without charging profit on profit on that portion) granting of reasonable grace period, extending suitable tenor etc. based on proper assessment of the current and future cash flows / income streams of the customers. Banks need to maintain adequate level of provisions against each restructured account.

34.3 Impact of COVID on the Window

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 2022, the Window has restructured financing amounting to RO 150,851 thousand, constituting 27.16% 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. Financial risk management (continued)

Credit risk (continued)

34.3 Impact of COVID on the Window (continued)

34.3.1 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.

34.3.2 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 2022 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:

	Real GDP growth (%)		Oil revenue (%GDP)	
	Dec-22	Dec-21	Dec-22	Dec-21
Present	12.70%	(4.30%)	25.97%	23.80%
Year 1	5.60%	1.80%	33.35%	30.29%
Year 2	2.70%	7.40%	28.77%	33.13%
Year 3	2.50%	2.70%	26.35%	32.94%

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 11,626 thousand as at Dec-21 to RO 14,878 thousand as at Dec-22, thereby increasing the ECL by RO 3,252 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.

34. Financial risk management (continued)

Credit risk (continued)

34.3 Impact of COVID on the Window (continued)

34.3.2 Impact on ECL: (continued)

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 be low 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 2022	ECL for Financing / Receivables RO'000	ECL for Investment securities RO'000	ECL for Other Portfolio RO'000	Total 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**

As at 31 December 2020	ECL for Financing / Receivables RO'000	ECL for Investment securities RO'000	ECL for Other Portfolio RO'000	Total RO'000
Scenarios currently used by the Window	10,602	150	874	11,626
100% Base case scenario	10,154	155	888	11,197
100% Downside scenario	12,585	241	1,180	14,006

The above tables reveal that in case of 100% downside scenario, the ECL may increase by RO 1,619 thousand (2021: 2,380 thousand) from the current position.

34.3.3 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.

Analysis on the deferment benefits used of the Customers

The following tables contain an analysis of all the accounts which are availing deferment benefits:

34. Financial risk management (continued)

Credit risk (continued)

34.3 Impact of COVID on the Window (continued)

34.3.3 Accounting for modification loss and restructuring: (continued)

A: Segment-wise analysis of Retail customers benefiting from deferred payments

As at 31 December 2022	Outstanding RO'000	Deferred Principal RO'000	Deferred Profit RO'000	ECL RO'000
Retail customers (reduced wages)	292	17	4	-
Retail customers (laid off jobs)	341	9	10	42
Total	**633**	**26**	**14**	**42**

As at 31 December 2021	Outstanding RO'000	Deferred Principal RO'000	Deferred Profit RO'000	ECL RO'000
Retail customers (reduced wages)	1,278	10	19	17
Retail customers (laid off jobs)	505	14	16	12
Total	1,783	24	35	89

B: Sector-wise analysis of Corporate customers benefiting from deferred payments

As at 31 December 2022		Construction RO'000	Services RO'000	Manufacturing RO'000	Import Trade RO'000	All Others RO'000	Total RO'000
Stage 1	Outstanding	45,899	-	-	-	-	**45,899**
	Deferred Principal	51	-	-	-	-	**51**
	Deferred Profit	2,776	-	-	-	-	**2,776**
	ECL	797	-	-	-	-	**797**
Stage 2	Outstanding	10,500	26,155	-	-	-	**36,655**
	Deferred Principal	226	330	-	-	-	**556**
	Deferred Profit	886	3,186	-	-	-	**4,072**
	ECL	751	1,853	-	-	-	**2,604**
Stage 3	Outstanding	-	-	-	-	-	**-**
	Deferred Principal	-	-	-	-	-	**-**
	Deferred Profit	-	-	-	-	-	**-**
	ECL	-	-	-	-	-	**-**
Total	**Outstanding**	**56,399**	**26,155**	**-**	**-**	**-**	**82,554**
	Deferred Principal	**277**	**330**	**-**	**-**	**-**	**607**
	Deferred Profit	**3,662**	**3,186**	**-**	**-**	**-**	**6,848**
	ECL	**1,548**	**1,853**	**-**	**-**	**-**	**3,401**

34. Financial risk management (continued)

Credit risk (continued)

34.3 Impact of COVID on the Window (continued)

34.3.3 Accounting for modification loss and restructuring: (continued)

B: Sector-wise analysis of Corporate customers benefiting from deferred payments (continued)

As at 31 December 2021		Construction RO'000	Services RO'000	Manufacturing RO'000	Import Trade RO'000	All Others RO'000	Total RO'000
Stage 1	Outstanding	66,380	27,351	2,923	1,873	10,956	109,483
	Deferred Principal	801	-	5,751	1,320	3,326	11,198
	Deferred Profit	2,234	1,023	73	169	312	3,811
	ECL	2,096	269	6	4	69	2,444
Stage 2	Outstanding	18,164	26,295	5,071	409	2,243	52,182
	Deferred Principal	4,387	1,411	120	-	91	6,009
	Deferred Profit	817	932	253	38	23	2,063
	ECL	868	999	169	17	101	2,154
Stage 3	Outstanding	-	-	-	-	74	74
	Deferred Principal	-	-	-	-	-	-
	Deferred Profit	-	-	-	-	3	3
	ECL	-	-	-	-	19	19
Total	Outstanding	84,544	53,646	7,994	2,282	13,273	161,739
	Deferred Principal	5,188	1,411	5,871	1,320	3,417	17,207
	Deferred Profit	3,051	1,955	326	207	338	5,877
	ECL	2,964	1,268	175	21	189	4,617

34.3.4 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 2021, 60% in 2022, 40% in 2023 etc.).

The Tier II Capital has improved by 0.63% 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.

34. Financial risk management (continued)

Credit risk (continued)

Gross exposures subjected to credit risk exposure are as follows:

1. Portfolio concentrations (Gross)

	2022 RO'000	2021 RO'000
Balances with CBO	**11,948**	21,217
Due from Banks	**13,819**	13,831
Total financing	**555,481**	501,255
Investments	**92,600**	80,112
Letter of credit / Guarantee	**16,860**	20,194
Acceptances	**342**	46,381
Unutilized exposure	**97,396**	48,334
Accrued profit	**11,008**	21,250
Total	**799,454**	752,574

Maisarah Islamic Banking Services - window of BankDhofar SAOG
Notes to the financial statement
For the year ended 31 December 2022

34. Financial risk management (continued)

Credit risk (continued)

2. Geographical concentrations (Gross)

	2022				
	Sultanate of Oman RO'000	Other GCC Countries RO'000	Europe and North America RO'000	Africa and Asia RO'000	Total 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**

	2021				
	Sultanate of Oman RO'000	Other GCC Countries RO'000	Europe and North America RO'000	Africa and Asia RO'000	Total RO'000
Balances with CBO	21,217	-	-	-	21,217
Due from Banks	-	11,995	1,836	-	13,831
Total financing	501,255	-	-	-	501,255
Investments	80,112	-	-	-	80,112
Letter of credit / Guarantee	14,658	261	2,231	3,044	20,194
Acceptances	111	32,737	13,526	7	46,381
Unutilized exposure	48,334	-	-	-	48,334
Accrued profit	21,250	-	-	-	21,250
Total	686,937	44,993	17,593	3,051	752,574

34. Financial risk management (continued)

Credit risk (continued)

3. Customer concentrations (Gross)

	2022			
	Retail RO'000	Corporate RO'000	Government RO'000	Total 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

	2021			
	Retail RO'000	Corporate RO'000	Government RO'000	Total RO'000
Balances with CBO	-	-	21,217	21,217
Due from Banks	-	13,831	-	13,831
Total financing	175,505	325,750	-	501,255
Investments	-	18,605	61,507	80,112
Letter of credit / Guarantee	315	19,879	-	20,194
Acceptances	-	46,381	-	46,381
Unutilized exposure	-	48,334	-	48,334
Accrued profit	313	20,533	404	21,250
Total	176,133	493,313	83,128	752,574

34. Financial risk management (continued)

Credit risk (continued)

4. Sector concentrations (Gross)

2021	Balances with CBO RO'000	Due from Banks RO'000	Total financing RO'000	Investments RO'000	Letter of credit / Guarantee RO'000	Acceptances RO'000	Unutilized exposure RO'000	Accrued profit RO'000	Total 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**

34. Financial risk management (continued)

Credit risk (continued)

4. Sector concentrations (Gross) (continued)

2021	Balances with CBO RO'000	Due from Banks RO'000	Total financing RO'000	Investments RO'000	Letter of credit / Guarantee RO'000	Acceptances RO'000	Unutilized exposure RO'000	Accrued profit RO'000	Total RO'000
Import trade	-	-	26,106	-	1,170	-	7,734	77	35,087
Export trade	-	-	-	-	10	-	-	-	10
Wholesale & retail trade	-	-	15,705	-	531	-	3,097	398	19,731
Mining & quarrying	-	-	5,159	-	76	46,200	-	2	51,437
Construction	-	-	163,989	-	9,785	78	19,157	13,430	206,439
Manufacturing	-	-	31,900	-	2,452	47	13,127	731	48,257
Electricity, gas and water	-	-	3,909	-	9	-	339	55	4,312
Transport & communication	-	-	187	-	-	-	17	15	219
Financial institutions	-	13,831	850	18,605	44	-	946	361	34,637
Services	-	-	58,032	-	371	-	616	5,099	64,118
Government	21,217	-	-	61,507	-	-	-	404	83,128
Retail	-	-	175,505	-	315	-	-	313	176,133
Agriculture and allied Activities	-	-	8,485	-	4,183	-	959	3	13,630
Others	-	-	11,428	-	1,248	56	2,342	362	15,436
Total	21,217	13,831	501,255	80,112	20,194	46,381	48,334	21,250	752,574

Maisarah Islamic Banking Services - window of BankDhofar SAOG
Notes to the financial statement
For the year ended 31 December 2022

34. Financial risk management (continued)

Credit risk (continued)

5. Credit quality concentration (Gross)

	2022			
	Performing Not Past Due RO'000	Performing Past Due RO'000	Non-Performing RO'000	Total 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**

	2021			
	Performing Not Past Due RO'000	Performing Past Due RO'000	Non-Performing RO'000	Total RO'000
Balances with CBO	21,217	-	-	21,217
Due from Banks	13,831	-	-	13,831
Total financing	467,005	29,583	4,667	501,255
Investments	80,112	-	-	80,112
Letter of credit / Guarantee	20,194	-	-	20,194
Acceptances	46,381	-	-	46,381
Unutilized exposure	48,334	-	-	48,334
Accrued profit	19,819	541	890	21,250
Total	716,893	30,124	5,557	752,574

34. Financial risk management (continued)

Credit risk (continued)

6. 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.

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 2022 including the projections used is presented as under:

Real GDP growth (%)	2022	2021	Oil revenue (%GDP)	2022	2021
Present	**12.70%**	(4.30%)	Present	**25.97%**	23.80%
Year 1 Projection	**5.60%**	1.80%	Year 1 Projection	**33.35%**	30.29%
Year 2 Projection	**2.70%**	7.40%	Year 2 Projection	**28.77%**	33.13%
Year 3 Projection	**2.50%**	2.70%	Year 3 Projection	**26.35%**	32.94%

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.

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

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.

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure 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**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
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**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Balances with CBO								
High grade	-	21,217	-	-	-	-	-	21,217
Standard grade	-	-	-	-	-	-	-	-
Satisfactory grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	-	21,217	-	-	-	-	-	21,217
Banks								
High grade	-	-	-	-	-	-	-	-
Standard grade	1	13,831	-	-	-	-	1	13,831
Satisfactory grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	1	13,831	-	-	-	-	1	13,831
Financing to customers Corporate and SME								
High grade	78	30,273	30	15,457	-	-	108	45,730
Standard grade	3,826	137,330	455	49,928	-	-	4,281	187,258
Satisfactory grade	182	16,228	3,563	72,331	-	-	3,745	88,559
Non-performing	-	-	-	-	1,328	4,203	1,328	4,203
Total	4,086	183,831	4,048	137,716	1,328	4,203	9,462	325,750
Retail (Personal)								
High grade	46	12,522	-	-	-	-	46	12,522
Standard grade	10	838	-	-	-	-	10	838
Satisfactory grade	-	-	21	118	-	-	21	118
Non-performing	-	-	-	-	57	103	57	103
Total	56	13,360	21	118	57	103	134	13,581

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Retail (Housing and credit card receivables)								
High grade	469	160,266	180	631	-	-	649	160,897
Standard grade	-	-	77	429	-	-	77	429
Satisfactory grade	-	-	66	237	-	-	66	237
Non-performing	-	-	-	-	224	361	224	361
Total	469	160,266	323	1,297	224	361	1,016	161,924
Total financing	4,611	357,457	4,392	139,131	1,609	4,667	10,612	501,255
Investments								
High grade	-	61,507	-	-	-	-	-	61,507
Standard grade	150	18,605	-	-	-	-	150	18,605
Satisfactory grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	150	80,112	-	-	-	-	150	80,112
Letter of credit / Guarantees								
Corporate and SME	45	10,604	77	9,275	-	-	122	19,879
Retail	-	315	-	-	-	-	-	315
Total	45	10,919	77	9,275	-	-	122	20,194
Others								
Unutilised	86	21,273	250	27,061	-	-	336	48,334
Acceptances	390	46,327	-	54	-	-	390	46,381
Accrued profit	9	13,042	13	7,318	836	890	858	21,250
Total	485	80,642	263	34,433	836	890	1,584	115,965
Total portfolio	5,292	564,178	4,732	182,839	2,445	5,557	12,469	752,574

Retail related housing and credit card receivable portfolio is not rated and currently it is categorized based on days past due bucket.

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

The gross exposure of the financial assets as at 31 December 2022 along with reconciliations from the opening to the closing balance by class of financial instruments are as follows:

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure 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	-	53	-	-	-	-	**-**	**53**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**2**	**13,819**	**-**	**-**	**-**	**-**	**2**	**13,819**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Total financing								
Opening balance	4,611	357,457	4,392	139,131	1,609	4,667	**10,612**	**501,255**
Transfer between stages								
- Transfer from Stage 1 to 2	(260)	(29,907)	260	29,907	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(1)	(231)	-	-	1	231	**-**	**-**
- Transfer from Stage 2 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**
Corporate and SME								
Opening balance	4,086	183,831	4,048	137,716	1,328	4,203	**9,462**	**325,750**
Transfer between stages								
- Transfer from Stage 1 to 2	(249)	(28,971)	249	28,971	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(1)	(152)	-	-	1	152	**-**	**-**
- Transfer from Stage 2 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**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
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**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure 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**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
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**

Maisarah Islamic Banking Services - window of BankDhofar SAOG
Notes to the financial statement
For the year ended 31 December 2022

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Balances with CBO								
Opening balance	-	11,809	-	-	-	-	**-**	**11,809**
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	-	9,408	-	-	-	-	**-**	**9,408**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**-**	**21,217**	**-**	**-**	**-**	**-**	**-**	**21,217**
Banks								
Opening balance	1	8,840	-	-	-	-	**1**	**8,840**
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	-	4,938	-	-	-	-	**-**	**4,938**
Financial asset originated during the year	-	53	-	-	-	-	**-**	**53**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**1**	**13,831**	**-**	**-**	**-**	**-**	**1**	**13,831**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Total financing								
Opening balance	2,472	394,217	4,554	84,820	1,510	4,519	**8,536**	**483,556**
Initial application on FAS 31	-	631	1	758	2	2	**3**	**1,391**
Transfer between stages								
- Transfer from Stage 1 to 2	(206)	(48,572)	206	48,572	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(3)	(179)	-	-	3	179	**-**	**-**
- Transfer from Stage 2 to 1	98	5,970	(98)	(5,970)	-	-	**-**	**-**
	(111)	(42,781)	108	42,602	3	179	**-**	**-**
Re-measurement of outstanding	2,125	(2,836)	(111)	(1,502)	94	(33)	**2,108**	**(4,371)**
Financial asset originated during the year	233	51,601	148	42,675	-	-	**381**	**94,276**
Financial asset matured during the year	(108)	(43,375)	(308)	(30,222)	-	-	**(416)**	**(73,597)**
Closing balance	**4,611**	**357,457**	**4,392**	**139,131**	**1,609**	**4,667**	**10,612**	**501,255**
Corporate and SME								
Opening balance	2,037	215,635	4,498	84,619	1,326	4,202	**7,861**	**304,456**
Initial application on FAS 31	-	631	1	758	2	2	**3**	**1,391**
Transfer between stages	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 2	(200)	(47,306)	200	47,306	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	(14)	-	-	-	14	**-**	**-**
- Transfer from Stage 2 to 1	93	5,939	(93)	(5,939)	-	-	**-**	**-**
	(107)	(41,381)	107	41,367	-	14	**-**	**-**
Re-measurement of outstanding	2,044	4,785	(392)	(1,461)	-	(15)	**1,652**	**3,309**
Financial asset originated during the year	204	41,445	142	42,655	-	-	**346**	**84,100**
Financial asset matured during the year	(92)	(37,284)	(308)	(30,222)	-	-	**(400)**	**(67,506)**
Closing balance	**4,086**	**183,831**	**4,048**	**137,716**	**1,328**	**4,203**	**9,462**	**325,750**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Retail								
Opening balance	435	178,582	56	201	184	317	**675**	**179,100**
Transfer between stages	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 2	(6)	(1,266)	6	1,266	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(3)	(165)	-	-	3	165	**-**	**-**
- Transfer from Stage 2 to 1	5	31	(5)	(31)	-	-	**-**	**-**
	(4)	(1,400)	1	1,235	3	165	**-**	**-**
Re-measurement of outstanding	81	(7,621)	281	(41)	94	(18)	**456**	**(7,680)**
Financial asset originated during the year	29	10,156	6	20	-	-	**35**	**10,176**
Financial asset matured during the year	(16)	(6,091)	-	-	-	-	**(16)**	**(6,091)**
Closing balance	**525**	**173,626**	**344**	**1,415**	**281**	**464**	**1,150**	**175,505**
Investments								
Opening balance	129	79,995	-	-	-	-	**129**	**79,995**
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	21	117	-	-	-	-	**21**	**117**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**150**	**80,112**	**-**	**-**	**-**	**-**	**150**	**80,112**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Letter of credit / Guarantees								
Opening balance	52	20,964	58	8,391	-	-	**110**	**29,355**
Transfer between stages	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 2	(5)	(479)	5	479	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	71	-	(71)	-	-	-	-
	(5)	(408)	5	408	-	-	-	-
Re-measurement of outstanding	(15)	6	(2)	(406)	-	-	**(17)**	**(400)**
Financial asset originated during the year	24	8,860	25	4,605	-	-	**49**	**13,465**
Financial asset matured during the year	(11)	(18,503)	(9)	(3,723)	-	-	**(20)**	**(22,226)**
Closing balance	**45**	**10,919**	**77**	**9,275**	**-**	**-**	**122**	**20,194**
Acceptances								
Opening balance	168	23,086	-	189	-	-	**168**	**23,275**
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	390	46,327	-	54	-	-	**390**	**46,381**
Financial asset matured during the year	(168)	(23,086)	-	(189)	-	-	**(168)**	**(23,275)**
Closing balance	**390**	**46,327**	**-**	**54**	**-**	**-**	**390**	**46,381**

Maisarah Islamic Banking Services - window of BankDhofar SAOG
Notes to the financial statement
For the year ended 31 December 2022

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Unutilised limits								
Opening balance	102	38,328	147	16,603	-	-	**249**	**54,931**
Transfer between stages	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 2	(6)	(3,460)	6	3,460	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	12	2,687	(12)	(2,687)	-	-	-	-
	6	(773)	(6)	773	-	-	-	-
Re-measurement of outstanding	(26)	(11,565)	21	2,616	-	-	**(5)**	**(8,949)**
Financial asset originated during the year	62	12,102	153	13,167	-	-	**215**	**25,269**
Financial asset matured during the year	(58)	(16,819)	(65)	(6,098)	-	-	**(123)**	**(22,917)**
Closing balance	**86**	**21,273**	**250**	**27,061**	**-**	**-**	**336**	**48,334**
Accrued profit								
Opening balance	5	10,120	6	3,021	627	656	**638**	**13,797**
Initial application on FAS 31	-	(631)	(1)	(758)	(2)	(2)	**(3)**	**(1,391)**
Transfer between stages	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 2	(1)	(1,999)	1	1,999	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	66	-	(66)	-	-	-	-
	(1)	(1,933)	1	1,933	-	-	-	-
Re-measurement of outstanding	6	5,454	7	3,544	209	234	**222**	**9,232**
Financial asset originated during the year	-	299	-	1	-	-	-	**300**
Financial asset matured during the year	(1)	(267)	-	(423)	2	2	**1**	**(688)**
Closing balance	**9**	**13,042**	**13**	**7,318**	**836**	**890**	**858**	**21,250**

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 2022, with LCR of 132.19% (2021: 312.84%).

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 2022 is 123.48% (2021: 126.34%) based on closing balance position.

The full report on LCR and NSFR is disclosed by the Bank in its website.

34. Financial risk management (continued)

Liquidity risk (continued)

Maturity profile of financial assets and liabilities based on undiscounted cashflows:

	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
31 December 2022						
Cash and 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**	**-**

34. Financial risk management (continued)

Liquidity risk (continued)

Maturity profile of financial assets and liabilities based on undiscounted cashflows: (continued)

	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
31 December 2021						
Cash and balances with Central Bank of Oman	23,729	-	-	-	-	**23,729**
Due from banks and financial institutions	13,830	-	-	-	-	**13,830**
Total financing	38,281	79,858	48,364	163,730	220,233	**550,466**
Investments	-	849	3,647	90,145	-	**94,641**
Other assets	20,457	9,741	36,575	-	-	**66,773**
Total assets – funded	96,297	90,448	88,586	253,875	220,233	**749,439**
Forward purchases	2,695	22,330	7,700	-	-	**32,725**
Total assets – non funded (Forwards)	**2,695**	**22,330**	**7,700**	**-**	**-**	**32,725**
Total assets – funded and non funded	**98,992**	**112,778**	**96,286**	**253,875**	**220,233**	**782,164**
Current accounts	10,105	6,139	5,099	4,499	9,611	**35,453**
Qard Hasan from Head Office	2,759	-	-	35,000	-	**37,759**
Other liabilities	6,860	9,753	36,587	128	-	**53,328**
Wakala inter bank deposits	-	1,225	10,123	51,953	-	**63,301**
Wakala customer deposits	29,156	87,932	97,033	108,988	45,906	**369,015**
Equity of unrestricted investment accountholders	3,224	6,447	6,446	32,216	16,148	**64,481**
Total liabilities and accountholders equity	**52,104**	**111,496**	**155,288**	**232,784**	**71,665**	**623,337**
Forward sales	2,695	22,412	7,718	-	-	**32,825**
Letter of credit and guarantees	20,194	-	-	-	-	**20,194**
Unutilised limits for financing and receivables	50,730	-	-	-	-	**50,730**
Total liabilities non funded (Forwards)	**73,619**	**22,412**	**7,718**	**-**	**-**	**103,749**
Total liabilities funded and non funded; and accountholders equity	**125,723**	**133,908**	**163,006**	**232,784**	**71,665**	**727,086**
Gap	**(26,731)**	**(21,130)**	**(66,720)**	**21,091**	**148,568**	**55,078**
Cumulative gap	**(26,731)**	**(47,861)**	**(114,581)**	**(93,490)**	**55,078**	**-**

34. Financial risk management (continued)

Market risk

Impact of COVID-19 on Fair Valuation of Securities

Due to the continued negative economic outlook from the from events detailed in 34.1, resulting in increased profit rates on instruments in the market and reducing instruments' yields. This has resulted in the reduction of fair valuation of instruments at 31 December 2022 by RO 1,019 thousand (2021: 24 thousand).

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

1. 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.

	2022			2021		
	Assets RO'000	Liabilities RO'000	Net RO'000	Assets RO'000	Liabilities RO'000	Net RO'000
US Dollars	**93,103**	**74,739**	**18,364**	78,655	77,186	1,469
Euro	**23**	**3**	**20**	36	5	31
UAE Dirham	**500**	**4**	**496**	353	78	275
Others	**110**	**-**	**110**	91	-	91
Total	**93,736**	**74,746**	**18,990**	79,135	77,269	1,866

2. 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.

34. Financial risk management (continued)

Market risk (continued)

2. Profit rate risk (continued)

Profit rate sensitivity gap (continued)

	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
31 December 2022								
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	**6.17%**	12,555	55,903	4,616	1,351	166	1,183	**75,774**
Ijara 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**	**-**	**-**

34. Financial risk management (continued)

Market risk (continued)

2. Profit rate risk (continued)

Profit rate sensitivity gap (continued)

	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
31 December 2021								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	23,729	23,729
Due from banks and financial institutions	0.76%	11,549	-	-	-	-	2,281	13,830
Murabaha and other receivables	5.68%	4,417	8,785	110	5,310	10,308	-	28,930
Mudaraba financing	6.05%	-	-	17,577	-	-	-	17,577
Diminishing Musharaka Financing	5.91%	15,606	89,663	26,002	90,478	116,046	-	337,795
Investments	5.58%	-	-	-	79,962	-	-	79,962
Wakala	6.05%	22,920	34,478	3,981	-	60	-	61,439
Ijara Muntahia Bittamleek	5.45%	-	12	19	685	44,186	-	44,902
Property and equipment	-	-	-	-	-	-	394	394
Intangibles	-	-	-	-	-	-	671	671
Other asset	-	-	-	-	-	-	67,911	67,911
Total assets		54,492	132,938	47,689	176,435	170,600	94,986	677,140
Current accounts	-	-	-	-	-	-	22,789	22,789
Qard Hasan from Head office	-	-	-	-	-	-	37,759	37,759
Other liabilities	-	-	-	-	-	-	54,192	54,192
Wakala inter bank deposits	2.21%	-	-	9,625	50,400	-	-	60,025
Wakala customer deposits	3.77%	1,688	40,173	68,159	102,280	137,485	-	349,785
Equity of unrestricted investment accountholders	2.04%	64,443	-	-	-	-	38	64,481
Owner's equity	-	-	-	-	-	-	88,109	88,109
Equity of accountholders & Total liabilities and shareholders' equity		66,131	40,173	77,784	152,680	137,485	202,887	677,140
On-balance sheet gap		(11,639)	92,765	(30,095)	23,755	33,115	(107,901)	-
Cumulative profit sensitivity gap		(11,639)	81,126	51,031	74,786	107,901	-	-

34. Financial risk management (continued)

Market risk (continued)

3. Equity risk

Equity risk is the risk that the fair value of equities 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. A 10% change in the value of the Window's equities at FVOCI at 31 December 2022 would have impacted equity by RO 640 thousand (2021: Nil).

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.

	2022 RO'000	2021 RO'000
Types of capital		
Tier I capital	**96,394**	87,807
Tier II capital	**6,553**	7,031
Total Regulatory Capital	**102,947**	94,838
Risk weighted assets (RWA)		
Credit risk weighted assets	**541,475**	551,627
Market risk weighted assets	**4,717**	13,538
Operational risk weighted assets	**71,614**	63,777
Total risk weighted assets	**617,806**	628,942
Capital ratios		
Tier I capital ratio (%)	**15.60%**	13.96%
Total capital as a % of RWA	**16.66%**	15.08%

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.

	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**
Total segment operating revenue	**5,465**	**15,379**	**2,189**	**23,033**
Segment cost				
Operating expenses including depreciation	**(4,906)**	**(5,229)**	**(1,304)**	**(11,439)**
Net 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	**99,108**	**326,575**	**97,113**	**522,796**

	2021			
	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenue	6,502	9,064	2,864	18,430
Other revenues	329	1,268	109	1,706
Net operating income	6,831	10,332	2,973	20,136
Segment cost				
Operating expenses including depreciation	(4,044)	(3,582)	(1,163)	(8,789)
Provision for impairment	(473)	(1,932)	(21)	(2,426)
Net profit for the year before tax	2,314	4,818	1,789	8,921
Segment assets	176,124	393,098	118,696	687,918
Less: Provision for impairment	(1,145)	(9,482)	(151)	(10,778)
Total segment assets	174,979	383,616	118,545	677,140
Segment liabilities	6,859	68,409	39,472	114,740

بنك ظفار
BankDhofar

P.O.Box 1507
P.C 112, Ruwi
Sultanate of Oman

T. +968 24 790 466
F. +968 24 702 865
www.bankdhofar.com