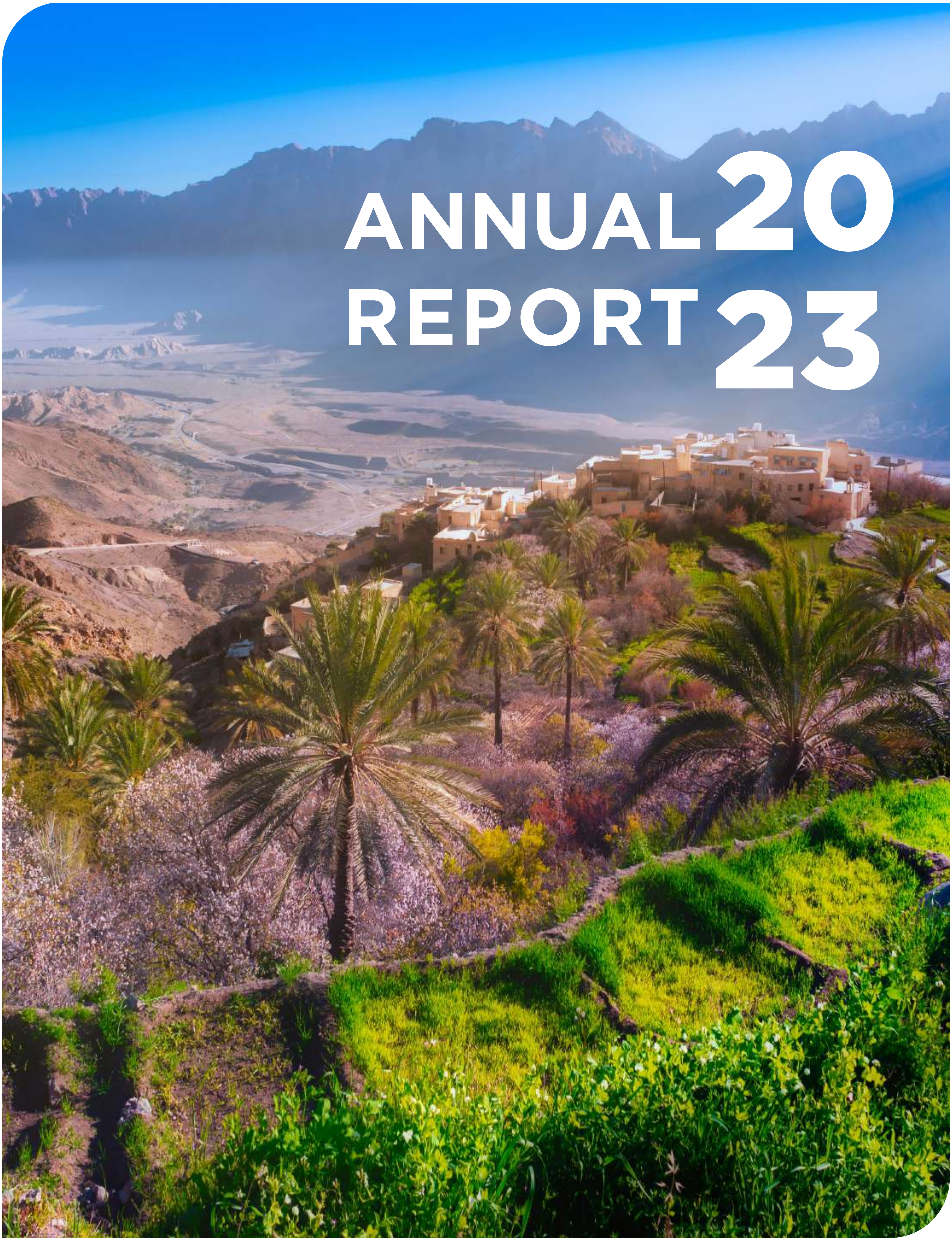
ANNUAL REPORT 2023



بنك ظفار
BankDhofar


EXPERIENCE
MAKES THE
DIFFERENCE

بنك ظفار

BankDhofar

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

His Majesty

Sultan Haitham Bin Tarik

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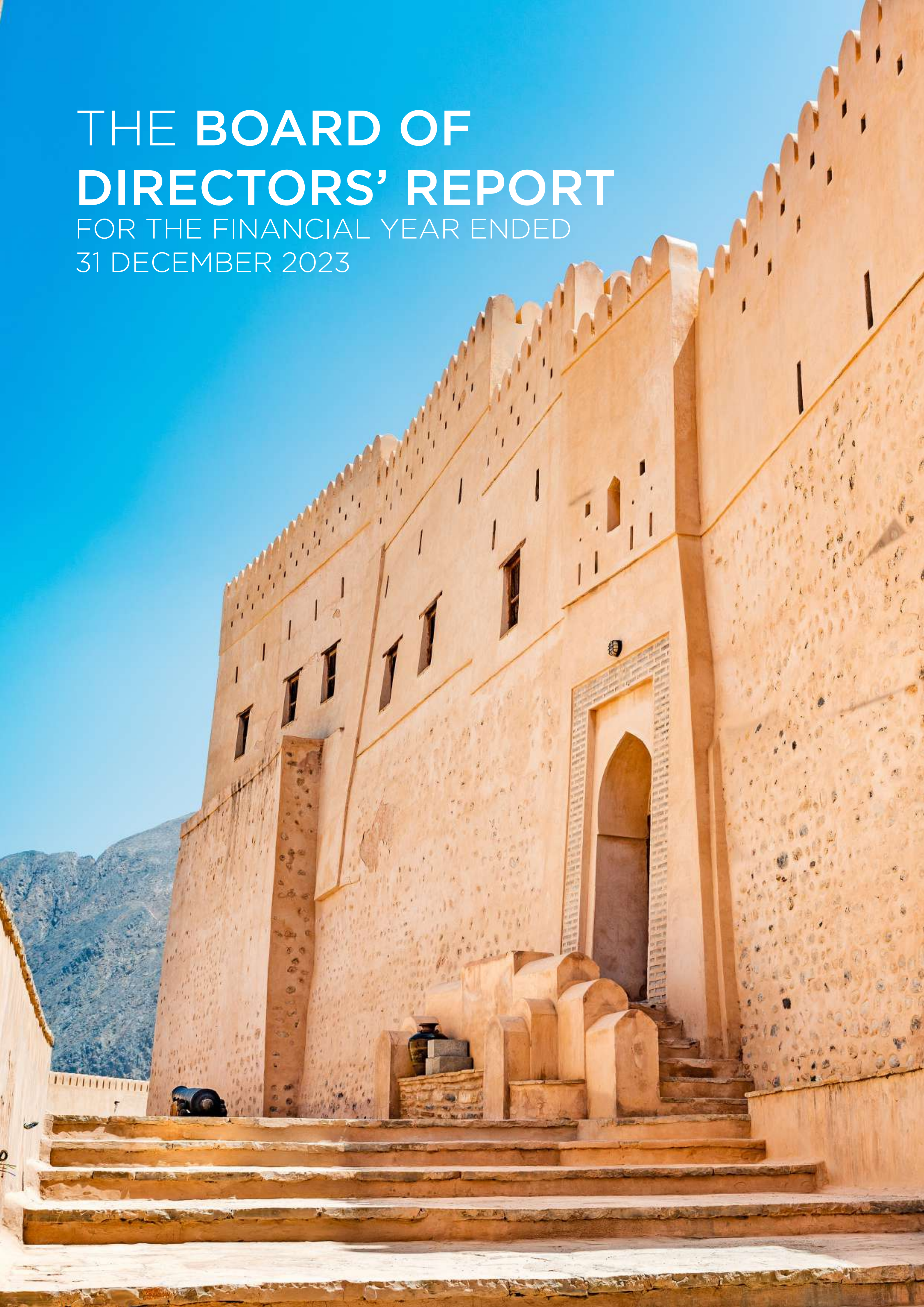
THE **BOARD OF DIRECTORS' REPORT**

FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2023



Dear Shareholders,

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

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

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

2023 Financial Overview

The key highlights of Bank's financials are summarized below

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

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

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

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

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

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

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

Net Expected Credit Loss 'ECL' for the year ending 2023 stood at RO 31.66 million after recoveries of RO 20.21 million as compared to RO 33.27 million after recovery of 11.25 million for the year 2022, a reduction of RO 1.61 million. Gross NPL ratio for the Bank decreased to 5.39% as at 31 December 2023 from 5.87% as at 31 December 2022. Net NPL, net of interest reserve and ECL stood at 2.02% as at 31 December 2023 compared to 2.00% at 31 December 2022.

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

Key Strategic Initiatives in the year 2023

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

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

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

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

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

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

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

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

Maisarah Islamic Banking Services - Financial Performance Highlights

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

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

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

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

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

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

Capital Adequacy

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

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

Distributed & Proposed Dividends

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

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

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

Awards & Accolades

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

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

Year Ahead (2024)

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

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

Acknowledgment

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

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

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

Eng. Abdul Hafidh Salim Rajab Al Ojaili

Chairman

THE BOARD OF DIRECTORS

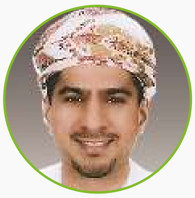
Eng. Abdul Hafidh Salim Rajab Al Ojaili
Basis of Membership:
Chairman Non-executive
Non-Independent
Shareholder Director

Mr. Ahmed Said Mohammed Al Mahrezi
Basis of Membership:
Vice-Chairman Non-executive
Independent Non-shareholder Director

Mr. Mohammed Yousuf Alawi Al Ibrahim
Basis of Membership:
Member Non-executive Independent
Representative Non-Shareholder Director

Mr. Tarik Abdul Hafidh Salim Al Aujaili
Basis of Membership:
Member Non-executive Non-Independent
Representative Shareholder Director

Mr. Hamdan Abdul Hafidh Al Farsi
Basis of Membership:
Member Non-executive Independent
Non-shareholder Director



Mr. Faisal Mohammed Moosa Al Yousef
Basis of Membership:
Member Non-executive Non-
Independent Representative
Shareholder Director

Sheikh Khalid Said Salim Al Wahaibi
Basis of Membership:
Member Non-executive Independent
Representative Shareholder Director

Sheikh Tariq Salim Mustahil Al Mashani
Basis of Membership:
Member Non-executive Independent
Representative Shareholder Director

Sheikh Ahmed Sultan Rashid Al Yaqoubi
Basis of Membership:
Member Non-executive Independent
Non-shareholder Director

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 Resources 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 2023

KPMG LLC
Children's Public Library Building
4th Floor, Shatti Al Qurum
P O Box 641, PC 112
Sultanate of Oman
Tel. +968 24 749600, www.kpmg.com/om

Private and confidential
Our ref.: aud/km/zu/14691/24

Agreed-Upon Procedures Report on Code of Corporate Governance of Bank Dhofar SAOG

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 Bank Dhofar SAOG ("Bank") for submission of agreed upon procedures report on the compliance with the Code of Corporate Governance (the "Code") to Capital Market Authority ("CMA") to assist in compliance of requirements prescribed in the CMA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code") and may not be suitable for another purpose.

Responsibilities of the Bank

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

The Bank (also the Responsible Party) are responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioners' Responsibilities

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

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Practitioners' Responsibilities (continued)

Professional Ethics and Quality Control

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

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

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Bank in the terms of engagement dated 1 May 2023, on the compliance with the Code:

S. No	Procedures	Findings
1	We checked that the corporate governance report (the Report) issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the Report as detailed in the Annexure 3 of the Code by comparing the Report with such suggested content in the Annexure 3.	No exceptions noted.
2	We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2023. With respect to procedure above, we inquired from and obtained written representation from management and those charged with governance for non-compliance with the Code for the year ended 31 December 2023.	No exceptions noted.

This report relates only to the items specified above and does not extend to the Bank's financial statements taken as a whole.

KPMG LLC
7 March 2024

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

Enclosures:
Bank Dhofar SAOG Corporate Governance Report

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 36 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 Governance, Risk Management & Compliance at the Social Protection Fund. He is a director of National Gas Co SAOG. He has a wealth of experience extending for 28 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, Chairman of Al Ruwad International for Education Services and Cactus Premier Drilling Services and a member of the Board of Directors of Dhofar International Development and Investment Holding Co SAOG and Al Anwar Investments. He is the Chief Executive Officer of Al Yousef Group. Mr. Faisal holds a Bachelor of Economics, an Executive MBA from Oxford university and holds an Advance Diploma in insurance. He 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 27 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.

Sheikh Ahmed Sultan Al Yaqoubi – Director

Mr. Ahmed Sultan Al Yaqoubi has 25 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-Ojaili	Member Non-executive	Non-independent	Non-shareholder Director	3
5	Mr. Hamdan Abdul Hafidh Al Farsi	Member Non-executive	Independent	Non-shareholder Director	1
6	Mr. Faisal Mohammed Moosa Al Yousef	Member Non-executive	Non-independent	Non-shareholder Director	3
7	Sheikh Khalid Said Salim Al Wahaibi	Member Non-executive	Independent	Non-shareholder Director	2
8	Sheikh Tariq Salim Mustahil Al Mashani	Member Non-executive	Independent	Non-shareholder Director	2
9	Sheikh Ahmed Sultan Al Yaqoubi	Member Non-executive	Independent	Non-shareholder Director	-

The Board of Directors held 10 meetings during 2023, as follows:

25 January 2023	15 March 2023	10 April 2023	19 April 2023
23 May 2023	10 June 2023	26 July 2023	20 September 2023
30 October 2023		20 December 2023	

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 RO)	
			Sitting Fees Paid	Remuneration Proposed
1	Eng. Abdul Hafidh Salim Rajab Al-Ojaili	10	10,000	35,500
2	Mr. Ahmed Said Mohammed Al Mahrezi	9	10,000	34,000
3	Mr. Mohammed Yousuf Alawi Al Ibrahim	8	9,200	32,500
4	Mr. Tariq Abdul Hafidh Salim Rajab Al-Ojaili	10	9,600	34,000
5	Sheikh Ahmed Sultan Al Yaqoubi	10	8,800	32,500
6	Mr. Hamdan Abdul Al Hafidh Al Farsi	8	10,000	34,000
7	Mr. Faisal Mohammed Moosa Al Yousef	10	7,200	32,500
8	Sheikh Khalid Said Salim Al Wahaibi	8	8,800	32,500
9	Sheikh Tariq Salim Mustahil Al Mashani	9	8,600	32,500
	Total		**82,200**	**300,000**

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 1/1/2023 to 31/12/2023 has held 4 meetings.

Name of SSB Members from 1/1/2023 to 31/12/2023	Designation	No. of meetings attended	Honorarium (Amount in RO)	
			Fees Paid	Remuneration Proposed (Amount Paid in 2023)
Sheikh Abdullah Bin Ali Al Shahri	Chairman	4	3,040	9,000
Sheikh Azzan bin Nasser bin Farfoor Al Amri	Deputy Chairman	4	2,550	7,500
Sheikh Dr. Abdul Rub bin Salim bin Abdul Rub Al Yafai	Member	4	2,100	7,000
Sheikh Hilal bin Hassan bin Ali Al Lawati	Member	4	2,250	7,000
Sheikh Dr. Amin Fateh	Member	4	2,000	7,000

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:

Name of Director	Designation	No. of meetings attended
Eng. Abdul Hafidh Salim Rajab Al Ojaili	Chairman of the BEC	3
Mr. Faisal Mohammed Moosa Al Yousef	Vice Chairman of the BEC	3
Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	3
Sheikh Khalid Said Salim Al Wahaibi	Member	2
Sheikh Tariq Salim Mustahil Al Mashani	Member	3
Sheikh Ahmed Sultan Al Yaqoubi	Member	3

The BEC held 3 meetings in 2023.

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:

Name of Director	Designation	No. of meetings attended
Mr. Hamdan Abdul Hafidh Al Farsi	Chairman of the Audit Committee	12
Mr. Ahmed Said Mohammed Al Mahrezi	Deputy Chairman	12
Sheikh Khalid Said Salim Al Wahaibi	Member	8

The (BAC) held 12 meetings in 2023.

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:

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

The (BRC) held 6 meetings in 2023.

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:

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

The (BNRC) held 4 meetings in 2023.

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 2023 are as follows:

	Proposed Remuneration RO	Sitting Fees Paid RO	Total RO
Chairman of the Board	35,500	10,000	45,500
Board Members	264,500	72,200	336,700
Total	**300,000**	**82,200**	**382,200**

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 robust 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 RO 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. 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 4 meetings in 2023. 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 and staff terminal benefit for 2023 was RO 2.331 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 2023, an amount of RO 124,780 was accrued / paid to the External Auditors of the Bank for audit and other services 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 - Compliance with Regulatory and Control Requirements

The Bank adhered to and complied with all relevant regulatory requirements in the last three years. The Central Bank of Oman imposed a penalty of RO 14,000 in 2020 and RO 14,000 in 2021 and RO 30,000 in 2022 . The Examination Report of the Central Bank of Oman for 2023 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.

12 - Compliance with Financial Consumer Protection Regulatory Framework (FCPRF)

The Central Bank of Oman has issued the Financial Consumer Protection Regulatory Framework (FCPRF) to ensure fairness in the delivery of financial products and services to consumers, avoid unfair business conduct, and have effective dispute resolution mechanism with the aim to maintain consumer confidence in the Financial System.

Bank Dhofar remains committed to safeguarding the rights of its valued customers and ensuring a secure banking environment through the implementation of the following initiatives in line with the Financial Consumer Protection Regulatory Framework (FCPRF).

- Formed Board Level (Board Risk Committee) and Management level committee (FCPRF Implementation Committee) to oversee the implementation of FCPRF.
- Developed a comprehensive charter published on the official website to enhance customer awareness regarding their rights and responsibilities in the realm of banking services.
- Established an informative hub on the official website to empower customers with knowledge about banking products, aiding them in making informed financial decisions.
- Launched impactful campaigns across the website, SMS, and Social Media platforms to educate customers on safeguarding themselves from potential banking frauds and scams.

Customer Feedback Channels: Bank Dhofar customers can conveniently submit complaints, suggestions, feedback, and inquiries related to the bank's products, services, and transactions through various accessible channels as given below:

For Conventional Banking Customers:

Phone(24X7): (+968) 24791111
Email: care@BankDhofar.com

Bank's website and Social Media Channels

For Islamic Banking Customers:

Phone(24X7): (+968) 24775777
Email: Care@Maisarah-Oman.com
Bank's website and Social Media Channels

The Bank is dedicated to resolving all complaints and queries within a stringent timeframe of 5 days from the date of lodging. Should a customer not receive a response or satisfactory resolution within this period, avenues for escalation to senior management are provided through the following focal points of contact for escalation:

Ahmed Said Al Ibrahim - Chief Corporate Services Officer on (+968) 22652010
(Sunday to Thursday 8:00 -2:00 pm), or Iman Musallam Al Amri - Head of Consumers Feedback on (+968) 22652010 (Sunday to Thursday 8:00 -2:00 pm).

Summary of Customer Complaints:

The concise overview of the customer complaints received by Bank Dhofar during the year 2023, along with the status of redressal is given below.

Disclosure on customer complaints and redressal (Bank Dhofar)			
Sr.No	**Complaints received by the bank from its customers**	**31st Dec 2023**	**31st Dec 2022**
1	No. of complaints pending at the beginning of the year	901	1745
2	No. complaints received during the year	33105	15913
3	No. of complaints disposed during the year	33001	16757
3.1	Of which, no. of complaints rejected by the bank	0	0
4	No. of complaints pending at the end of the year	704	901
4.1	Of which, no. of complaints pending beyond 30 days	49	57

Disclosure on customer complaints and redressal (Maisarah)			
Sr.No	**Complaints received by the bank from its customers**	**31st Dec 2023**	**31st Dec 2022**
1	No. of complaints pending at the beginning of the year	12	26
2	No. complaints received during the year	3285	969
3	No. of complaints disposed during the year	3258	983
3.1	Of which, no. of complaints rejected by the bank	0	0
4	No. of complaints pending at the end of the year	39	12
4.1	Of which, no. of complaints pending beyond 30 days	4	0

Bank Dhofar encourages its customers to express their concerns and provide feedback to ensure a swift and effective resolution process. Our commitment to transparency and accountability drives our continuous efforts to enhance customer satisfaction.

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 2023, compared with Muscat Stock Exchange Financial Sector Index is as follows:

2023	Bank Dhofar Share Price (RO)			MSX financial sector Index
Month	High	Low	Closing	Closing
January	0.150	0.150	0.150	7,550.1710
February	0.152	0.152	0.152	7,671.763
March	0.160	0.160	0.160	7,778.1840
April	0.155	0.155	0.155	7,601.3000
May	0.175	0.169	0.175	7,558.7440
June	0.173	0.173	0.173	7,830.1330
July	0.174	0.174	0.174	7,827.3480
August	0.175	0.175	0.175	7,831.4290
September	0.178	0.170	0.170	7,650.2110
October	0.160	0.160	0.160	7,411.3690
November	0.162	0.160	0.162	7,583.9170
December	0.160	0.159	0.160	7,392.6730

b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2023:

Sr.No.	Shareholder	Percentage of Ownership
1	Dhofar International Development & Investment Holding Company (SAOG)	24.096%
2	H.E. Abdul Hafidh Salim Rajab Al Ojaili & his companies	24.75%
3	Civil Service Pension Fund	10.53%
4	H.E. Yousuf bin Alawi bin Abdullah & his companies	9.80%
5	Public Authority of Social Insurance	8.91%
6	Sheikh Mustahail Ahmed Al-Ma'ashani & his companies	7.45%
7	Ministry of Defense Pension Fund	5.19%
8	Others	9.27%
	Total	**100.00%**

15 - Profile of the Statutory Auditors

The shareholders of the Company appointed KPMG as its auditors for 2023. KPMG LLC in Oman was established in 1973 and is part of KPMG Lower Gulf Limited. KPMG in Oman employs more than 160 people, amongst whom are five partners and five directors, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. It operates in 143 countries and territories and have 273,000 people working in member firms around the world. KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms.

16 - Other Matters

The last Annual General Meeting was held on 22 March 2023. 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. Mr. Mohammed Yousuf Alawi Al-Ibrahim, Mr. Ahmed Sultan Al Yaqoubi and Sheikh Khalid Said Salim Al Wahaibi.

17 - Perpetual Tier 1 Capital Securities

Tier 1 RO Securities

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

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

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

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

Further In December 2023,the Bank issued Perpetual Tier 1 RO Capital Securities (the “Tier 1 RO Securities”),

amounting to RO 40,000,000, denominated in Riyal Omani. This Tier 1 RO Securities is listed on Muscat Stock Exchange.

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

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

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

These securities form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman Regulations (BM-1114).

18 - 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

PROFILE OF THE **EXECUTIVES**

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

Abdul Hakeem Al Ojaili is the Chief Executive Officer of Bank Dhofar. He has over 34 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 Bank Dhofar as Deputy Chief Executive Officer in November 2021. He is a veteran finance professional with more than 31 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 Bank Dhofar, 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 29 years of experience in the banking and finance industry. He currently serves as the Chief Corporate Services Officer at Bank Dhofar.

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 Bank Dhofar, and he brings in more than 30 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 23 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 Bank Dhofar and has over 23 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

Vikesh Mirani joined Bank Dhofar 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 Bank Dhofar, 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.

Mallikarjuna Korisepati
Chief Wholesale Banking Officer

Mr. Mallikarjuna joined the Bank as Chief Wholesale Banking Officer. He is a Senior Management Executive with 27 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 Bank Dhofar as the Chief Retail Banking Officer in August 2022. He is a Senior Management Executive with 27 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 29 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 Resources Officer

Dr. Khalid Al Hamadani joined Bank Dhofar in 2016 with over 27 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 25 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 2023

Economic Scenario and Outlook

Amidst a backdrop of global turbulence marked by geopolitical uncertainties and soaring inflation, Oman's financial landscape displayed commendable resilience and adaptability in 2023.

Guided by the prudent governance of His Majesty Sultan Haitham bin Tarik, the nation embarked on a trajectory of structural reforms and sustainable fiscal policies, lauded by institutions such as the International Monetary Fund (IMF) for catalyzing a robust economic resurgence. This resurgence was characterized by notable achievements including job creation, inflation moderation, significant reduction of public debt, and notable upgrades in Oman's sovereign credit ratings. Despite a marginal decrease in oil production, Oman's GDP at constant prices demonstrated a resilient growth of 2%, reaching RO 26.4 billion by the third quarter of 2023. This growth was predominantly driven by a dynamic non-oil sector, which witnessed a 2.7% increase in added value, constituting a substantial portion of the GDP.

Meanwhile, the contribution of oil activities to the GDP remained significant, albeit with a modest increase of 0.5% at constant prices. The government's proactive measures effectively countered global inflationary pressures, maintaining Oman's inflation rate within manageable range. Notably, the consumer price index recorded a modest 1.03% increase during the January-November 2023 period, reflecting a significant decrease from the previous year.

Through persistent implementation of financial control measures, public spending witnessed a notable decline of 15.8%, reaching approximately RO 9 billion. This prudent approach culminated in the state's general budget achieving a financial surplus of RO 830 million, marking a slight decrease from the surplus of RO 1.21 billion recorded during the same period in 2022.

Concurrently, effective debt management strategies yielded substantial results, with total public debt experiencing a significant reduction. By the end of October 2023, the total public debt had decreased by approximately RO 1.3 billion, reflecting a decrease of 7.4% from the end-2022 level, and reaching approximately RO 16.3 billion.

The tangible improvements in Oman's economic indicators were underscored by upgrades in its credit ratings by leading international rating agencies. Fitch, Standard & Poor's, and Moody's all revised their credit ratings upwards, reflecting confidence in Oman's improving financial performance and prudent fiscal management.

Three years into the 10th Five-Year Development Plan, Oman remains steadfast in its pursuit of the ambitious goals outlined in "Oman Vision 2040." With the GDP at current prices reaching RO 31.4 billion, the nation continues to make strides towards achieving a diversified and sustainable economic future.

Government Banking and Investment Banking

Bank Dhofar's Government Banking and Investment Banking divisions strategically cater to a diverse clientele, elevating the bank's brand value and propelling revenue growth through strategic partnerships. Encompassing Government Banking, Investment Banking, Asset Management, Private Banking, and Proprietary Investments, this division is structured to deliver specialized financial solutions tailored to meet the unique needs of each client.

The Government Banking Department ensures swift and tailored services for Govern-ment and quasi-Government clients through a dedicated team of professionals and ad-vanced technological tools. As one of the largest financial institutions in the Sultanate, Bank Dhofar's associations with various Government entities are of paramount im-portance. With a dedicated team of professionals and a suite of technological solu-tions, the bank caters to the diverse requirements of Ministries, pension funds, sover-eign wealth funds, and other government-backed institutions through continued en-gagement and proactive relationship management.

Bank Dhofar has continued to enhance its investment banking capabilities, offering a comprehensive suite of strategic advisory services through its corporate finance advisory department. These services include mergers and acquisitions advisory, equity and debt capital raising, and other customized solutions to meet various corporate finance needs. The bank is currently involved in several landmark financial advisory and fundraising transactions, further solidifying its position as a trusted financial partner.

At the heart of our mission is building generational relationships and securing the financial future of our clients. Our evolving portfolio of innovative financial solutions spans investments across all asset classes. Recognizing the importance of wealth nurturing, we navigate the intricacies of the financial world to provide bespoke solutions for our clients. Bank Dhofar offers a suite of asset management and wealth management services guided by this philosophy.

The Asset Management Department provides products and solutions for institutional and individual investors to achieve their investment goals, offering services such as investment management, portfolio management, and fund administration. Moreover, the bank is expanding its investment product portfolio with planned launches of several innovative alternatives for institutional and individual investors.

Our Private Banking team offers dedicated wealth management solutions tailored to meet the unique needs of our customers. Going beyond traditional banking, we provide focused wealth solutions, personalized core banking services, and cutting-edge lifestyle management services aimed at delivering sustainable long-term value to our clients.

Wholesale Banking

Our Wholesale Banking division has played a pivotal role in supporting Oman's economic development, catering to Large Corporates, SMEs, and the broader business community with a range of specialized financial products and services.

Strategic Overview

Throughout the year, we have focused on aligning our services with Oman's Vision 2040, emphasizing sustainability, digital transformation, and economic diversification. Our commitment to innovation has seen the launch of digital solutions aimed at enhancing operational efficiency and client satisfaction.

Large Corporate Banking

Our Large Corporate Banking division has been instrumental in providing tailored financial solutions to meet the complex needs of our corporate clients across various sectors. This year, we further enhanced our product offerings with the introduction of Remote Cheque Capture & Deposit (RCCD) and a robust online banking platform, reinforcing our position as a leading financial partner in Oman.

Treasury Services

The Treasury division has expanded its capabilities in commodities hedging, reinforcing our commitment to meet the diversified needs of our clients. Our leadership in the USD/RO market and the introduction of comprehensive risk management solutions underscore our dedication to excellence in treasury services.

Mid Corporate Banking and SME

Aligned with Oman's Vision 2040, our focus on SMEs has intensified, recognizing their critical role in the national economy. We have broadened our support through enhanced digital platforms, advisory services, and dedicated branches, ensuring that SMEs have the resources they need to thrive.

Project Finance and Syndications

Our Project Finance and Syndications team has continued to deliver customized financing solutions, supporting significant projects in infrastructure, renewable energy, and digital transformation. Our ability to syndicate large-scale loans and issue Additional Tier 1 bonds demonstrates our strong market position and commitment to Oman's development.

Corporate Liabilities and Transaction Banking

We have streamlined our corporate liabilities and transaction banking services, offering comprehensive solutions that range from account management to digital payment systems. Our focus on enhancing client experiences through technology has led to higher efficiency and satisfaction.

Digital Transformation

Our commitment to digital transformation is unwavering, with significant investments in digital banking solutions. This strategic focus not only improves service delivery but also positions us as a leader in innovative banking in Oman.

Looking Ahead

As we move forward, our strategy remains centered on sustainable growth, digital innovation, and aligning with national development goals. Our dedicated teams across all divisions of Wholesale Banking are committed to delivering excellence and supporting our clients' success.

Retail Banking Division

In 2023, Retail Banking introduced several customer-centric proposition offerings and enhancements. Based on the bank's strategy, it rolled out 'Life Cycle Banking,' a segmented approach to meet customer needs from childhood to priority. The bank also initiated an aggressive distribution expansion campaign, adding 85 ATM/CDM/FFM/MFKs to our network, representing a 36% increase to reach 318. Additionally, the bank opened 43 new branches, expanding our branch network to 112, solidifying our position as the second-largest in Oman.

Distribution Expansion

The bank opened its 100th branch during Q4, 2023, anchoring its commitment to providing financial services and enhancing customer accessibility throughout Oman. This milestone reflects the 'Closer to You' concept, emphasizing the bank's dedication to the country's development and its role in fostering a hundred stories of success and progress.

The branch expansion strategy aligns with the Bank's commitment to supporting the objectives of Oman Vision 2040. Each branch is designed to provide tailored financial solutions to meet the unique needs of local communities. This expansion reinforces the bank's connection with communities, bringing accessible and personalized banking services closer to customers' doorsteps, and contributing to national growth and prosperity.

In 2023, Retail introduced the Enterprise Sales function within the division, ensuring the conduct of roadshows across the Sultanate to introduce the Bank's products and propositions to customers at their convenience. This initiative is a testament to the customer-centric service of the bank, aiming to bring banking closer to customers and ensure more rewarding relationships.

Lifecycle Banking

Bank Dhofar has introduced a segmented life cycle banking approach with specialized account offerings for various stages.

The Children's Account is a specialized banking solution designed for newborns to children under 13 years old. This account offers a secure platform to instill essential money management skills and foster financial confidence in children. With features like 'no minimum balance,' 'flexible recurring deposit,' and 'monthly financial assistance through the social protection program,' the account serves as a convenient and beneficial foundation for future savings.

The Bank aims to make the learning experience exciting for children, allowing them to set savings goals and witness their money grow. This initiative aligns with the bank's commitment to investing in Oman's future by promoting financial literacy and contributing to the development of responsible, financially literate citizens. The Bank also opened its doors on Saturdays to help facilitate smooth account openings for the benefit of working parents.

The Minor Savings Account, a strategic initiative designed for young customers aged between 13 and 18, emphasizes financial literacy and long-term financial success. This account offers a range of features, including a flexible recurring deposit and a customized debit card, encouraging minors to develop responsible financial habits. The account not only facilitates deposits and withdrawals but also demonstrates the bank's commitment to nurturing financially confident individuals through guidance, savings incentives, and parental involvement.

Designed for individuals aged 18 to 23, the Youth Account reflects the Bank's commitment to providing flexible banking solutions for financial independence. With no minimum balance, a personalized debit card, and free transfers through mobile payment services, this account empowers young account holders with essential money management skills, building on a strong financial foundation.

The Al Rifaa Privilege Banking Account is tailored for the Bank's esteemed customers, delivering an elevated banking experience with exclusive benefits, personalized services, and rewarding perks.

Account holders enjoy priority customer support for transactions and at the Bank's call center, attractive interest rates on deposits, and preferential rates on the High Yield savings account. Additionally, they can access branded Platinum Debit and Credit Card facilities. The debit and credit cards offer a range of benefits, including special offers, airport lounge access, and reward points on both local and international purchases.

The bank also introduced 'Ladies Banking,' an exclusive financial offering for women, designed to empower and meet their unique needs. The proposition includes an elegant vertical debit card, symbolizing empowerment and distinction. More than just a payment tool, it makes a statement. Ladies Banking reaffirms Bank Dhofar's commitment to supporting women in achieving financial goals, offering special rates on loans and deposits with preferential terms for personal or business needs.

Al Riadah Priority Banking

Offers a tailored suite of products and services for priority customers, featuring personalized cheque books and exclusive cards – Visa Infinite Debit, Visa Signature Debit, Visa Infinite Credit, Visa Signature Credit, and MasterCard Platinum Credit.

This includes benefits like dining and shopping privileges, procurement protection, extended warranty, global airport lounge access, and travel insurance. Tailor-made financing solutions with low insurance fees and swift procedures are also available. Competitive interest rates and low insurance fees accompany deposit accounts. The Rewards Program provides exclusive benefits, accessible through Bank Dhofar's Mobile Banking App, which also facilitates 24/7 banking transactions, credit card top-ups for secure travel payments, instant transfers, mobile top-ups, and international money transfers with Western Union. Dedicated Al Riadah offices are available in every Bank Dhofar branch.

Rewarding Banking

Bank Dhofar's Salary Transfer Account stands out with a range of benefits and rewards, including credit and debit cards, seamless digital banking access, competitive rates on loans and deposits, and access to an extensive branch network. This proposition provides customers with an array of advantages, such as a large network of branches and ATMs across Oman, ensuring convenient access to services and reflecting the commitment to bringing banking closer to customers.

The mobile banking app further enhances convenience, offering a seamless and user-friendly experience for on-the-go transactions, utility payments, and account opening. By transferring salaries to Bank Dhofar, customers can enjoy preferential interest rates on savings and deposits, contributing to accelerated wealth growth. The streamlined loan processing system ensures eligible customers access funds quickly and conveniently, while exclusive credit card offers, including cashback, rewards, and discounts on various purchases, make salary transfer even more rewarding.

During 2023, the Retail Bank rolled out diverse deposit options to cater to various financial needs. The Fixed Deposit, or Term Deposit, offers an enticing interest rate of 5% per annum, allowing customers to secure their savings with the choice of additional income credited to their account or compounding for substantial growth. The US Dollar Deposit option is tailored for those holding USD, providing an attractive interest rate of 4.84% per annum for deposits of USD 50,000 or more.

The Recurring Deposit rewards commitment with an impressive 5% interest rate over three years, offering a flexible and accessible way to achieve savings goals. Bank Dhofar introduces the Children's Recurring Deposit Account, encouraging parents to save for their children's education with up to 5% p.a. interest and flexible tenors until the child reaches 18 years.

The High Yield Savings Account balances liquidity and returns, offering a generous 4% interest per annum, providing flexibility with an impressive interest rate. Bank Dhofar remains dedicated to empowering customers with wealth generation options that meet their diverse financial needs, emphasizing security, flexibility, and high returns.

The Bank introduced a customer-centric Vertical Debit and Credit Cards, aiming to enhance the banking experience for valued customers. The portrait-oriented design aligns with how people use their cards, resembling smartphone orientation. The front displays customer details, issuer, and logos, while the back hides sensitive information for improved security and intuitive 'Tap and Pay.' A selected color scheme reflects specific segment colors, accompanied by a silver wave pattern symbolizing movement and endless possibilities. Key features include enhanced security with EMV chip technology, contactless payment through NFC technology, global acceptance for purchases and ATM withdrawals worldwide, and instant issuance at expanding branch networks, providing customers immediate account access.

Recognizing the importance of offering exceptional value to customers, we enhanced our reward platform by transforming everyday spends into exciting opportunities for shopping, travel, experiences, and more. The program is structured to help credit card users convert their day to day spends to rewarding experiences.

The Rewards points program is updated to provide a seamless and user-friendly experience, making it easy for cardholders to track their points, browse the rewards, and redeem their points through Bank Dhofar's mobile app or website. With a diverse range of redemption options and an ever-expanding catalog of high-quality products and experiences, customers enjoy endless opportunities to indulge, explore, and save. Cardholders can even choose to redeem points for flight tickets at over 900 airlines, book a holiday, stay in more than 700,000 hotels or redeem at the Bank's partner outlets in Oman.

Credit cardholders can earn up to 1.87% as rewards on every purchase made internationally and 1.25% on purchases made in Oman as rewards. Percentages of reward values are higher for international purchases, with an offering of 1.87% each for Infinite and World, 1.5% for Platinum and 1.13% for Gold.

As part of the Retail Bank's initiatives to enrich the customer experience of customers by providing excellent electronic banking services, we have launched a PIN create / reset service for debit/credit cards via Automated Teller Machine (ATM), Mobile Banking, Internet Banking, Interactive Voice Response (IVR) and Interactive Voice Notification (IVN).

Digital Banking

The Bank prioritizes technology and innovation, making it integral to enhancing customer experiences. Customers enjoy secure and user-friendly digital banking channels, with the award-winning Mobile Banking App offering exclusive services like instant transfers, cardless cash, and mobile top-ups. The 'Tap & Go' feature on Bank Dhofar cards facilitates convenient payments, emphasizing security with RFID protection.

The bank achieved another milestone by becoming the first bank in Oman and the Middle East to install Diebold Nixdorf's RM4V Cash Recycling Engine, offering an unparalleled customer experience. The DN Series Recycler ATM/CDM, exceeding the usual capacity with the ability to dispense 300 banknotes, aligns with the Central Bank of Oman's protocols. Cash recycling not only trims cash management costs but also extends cash-in-transit intervals and reduces CO_2 emissions, emphasizing environmental responsibility.

The RM4V technology optimizes cash storage within the ATM, boasting multi-denomination capabilities, enhanced security, and flexible configuration options. This Recycler ATM/CDM, operating as a 24x7 mini cashier, caters to individual, medium, and large corporate customers, fostering secure and convenient contactless transactions through NFC-enabled technology.

Customers can now elevate their withdrawal limits via the Bank Dhofar mobile app, ensuring increased accessibility to higher withdrawals.

The payment gateway services, encompassing traditional POS and the innovative Soft POS on android phones, are introduced to enhance convenience for customers. The Soft POS transforms everyday smartphones and tablets into secure payment terminals, enabling agents, dealers, and sub-dealers to seamlessly accept various payment methods.

This includes credit and debit card transactions, offering customers a swift, convenient, and secure payment experience. The Soft POS solution eliminates the constraints of cash transactions, revolutionizing the overall customer experience and contributing to the growth of a cashless economy in Oman. Any android phone can now serve as a POS terminal, marking a significant shift towards digital payments.

Strategy, Customer Experience and Marketing

The Strategy team is an important unit shaping Bank Dhofar's growth, focusing on strategic direction and organizational alignment. The bank-wide strategy, communicated through town-halls and leadership forums, is rolled out to businesses and functions, emphasizing the Strategy team's ongoing commitment to steering execution progress.

Key deliverables include:

Strategy Development: Formulating a bank-wide strategy involves performing external and internal competitive analysis, conducting scenario planning, and organizing regular strategy meetings.

Organizational Alignment & Communication: Ensuring critical functions align with the overall strategy, the team develops detailed execution plans. Clear linkages are established, and execution scorecards cascade through organizational levels, defining synergies across units.

Monitoring Strategic Initiatives: The discretionary nature of strategic programs demands separate management from routine operations. While unit responsibilities lie in initiative management, the Strategy team closely monitors and steers execution progress.

Customer Experience

The Customer Experience (CX) unit plays a key role in shaping and implementing a customer-centric approach.

The units objectives focused on providing smarter, simpler, and more personalized banking experiences, fostering relationships, attentive listening to customers, and continuous adaptation for improvement.

From charting a customer onboarding and engagement journey to simplifying account opening processes, the unit has taken more than 100 initiatives to provide a comprehensive customer experience across the touch points.

approach to customer serv

The introduction of "Ethraa," an innovative Service Value System (SVS), marked a significant milestone in Bank Dhofar's commitment to delivering exceptional service. Ethraa integrates training with behavioral standards, instilling a service-oriented mindset among customer-facing employees. Key pillars of Ethraa include building long-term relationships, taking ownership of customer interactions, capturing and acting upon customer feedback, continuous improvement through self-assessment, fair treatment and respect, ensuring the right to choose, reliability of service channels, and guaranteeing customer privacy.

Marketing and Corporate Communications

In 2023, the Marketing and Corporate Communications unit continued to amplify the bank's brand visibility and strengthen internal communication. Internal updates were efficiently shared through communication emails, fostering employee engagement and awareness.

The unit has on-boarded a global communications agency, enhancing its strategic approach to brand visibility. The department also achieved the verification of all social media platforms.

Externally, the department played a key role in promoting various initiatives, including retail campaigns, digital app launches, and website revamp. The Digital Communications team conducted engaging social media campaigns and competitions, enhancing customer interaction.

The revamped website, designed with an intuitive layout based on SEO principles, was officially launched in Q1 2023. Community Engagement and micro marketing activities, such as corporate events and roadshows, further solidified Bank Dhofar's presence. The team's efforts extended to creative refresh at the prestigious Muscat International Airport and Salalah Airport.

Financial Inclusion Initiatives

As part of Financial Inclusion initiatives, Marketing and Corporate Communications have taken the responsibility to communicate with all individuals and business owners about various products and services that meet their needs, delivered in responsible and sustainable ways. This includes awareness campaigns tailored to specific segments, sponsorship events, press releases and advertisements in newspapers, social media coverage, and more.

Social media channels play a crucial role in promoting products, services, and different offerings, alongside utilizing corporate communications tools to highlight Bank Dhofar's news and updates. The awareness campaigns not only target the existing customer base but also aim to reach the general population, encouraging them to join Bank Dhofar.

Bank Dhofar boasts a branch network of 108 branches, designed appropriately to accommodate disabled customers, across Oman, ensuring accessibility for all demographics and facilitating ease in banking for customers. ort and advice t

To ensure higher consumer engagement and retention, Bank Dhofar offers one of the best mobile banking applications, accessible 24/7 for real-time multiple transactions, aiming to transition customers to the mobile banking platform seamlessly.

Lastly, the staff undergo regular training on multiple aspects of banking, especially focusing on selling skills and products available for each segment, to ensure effective customer acquisition.

Legal Division

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.

Customer Feedback

The Customer Feedback unit serves as an essential connect between Bank Dhofar and our valued customers, ensuring that their voices are heard and concerns addressed promptly.

Committed to delivering a superior banking experience, the unit uses several customer channels including website, branches, call center and feedback mails through on line and digital platforms. 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. By analyzing this feedback, the department gains valuable insights into customer satisfaction, expectations, and areas for improvement.

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 The team collaborates with all departments and units within Bank Dhofar and Maisarah Islamic Banking Services, to ensure customers' feedback is addressed properly as per the approved process and service level agreement.

The key remit of the unit is as follows:

- Resolution: Communication with customers is a priority. The department ensures that customers are informed of actions taken in response to their feedback, fostering transparency and trust within the service level agreements

- Innovation Initiatives: The Customer Feedback Department actively engages in innovative initiatives to enhance the feedback process, encouraging customers to share their thoughts through convenient and accessible channels.

By prioritizing customer feedback and acting on valuable insights, Bank Dhofar's Customer Feedback Department plays a pivotal role in maintaining the bank's commitment to delivering exceptional banking experiences tailored to the needs and expectations of its diverse customer base.

Central Operations

The Central Operations unit at Bank Dhofar serves as the key pillar that efficiently manages banking operations for both individuals and corporates. This strategic unit plays a crucial role in ensuring the seamless functioning of various banking services, utilizing technology and robust processes to uphold the bank's commitment to excellence. The unit manages both Bank Dhofar and Maisarah Islamic Banking Services requirements

The unit is responsible for:

- Transaction Processing: Ensuring swift and accurate processing of all the transactions with Zero Error rate, catering to the needs of individual and corporate customers.
- Technology Integration: Implementing and utilizing technology across the customer life cycle with the Bank with an objective to offer innovative solutions with enhanced efficiency and provide customers the best banking experience.
- Risk Management: The division also manages the individual's credit scoring measurement and works to implementing robust risk management protocols, safeguarding the customer interests.
- Branch Operations: The team serves as the key support system for branch customers, addressing inquiries, resolving issues, and ensuring that the bank's front line team receives prompt and reliable assistance to enable customer satisfaction.
- Change Management: Continual process optimization is a priority for Central Operations, aiming to enhance efficiency, zero error rate, enhance turnaround times, and contribute to the overall agility of Bank Dhofar's expanding operations.
- Customer Centricity: Customer Satisfaction is at the heart of everything we do at Bank Dhofar. Customer preferences, needs and interests are treated as a top priority, and Central Operations ensure that we are positioned to engage accordingly. A customer's 360-degree view is undertaken to gain valuable insights and implement steps for their satisfaction.

Through its dedicated functions, the Central Operations unit plays a pivotal role in upholding Bank Dhofar's reputation for reliability, security, and innovation, ensuring that both individual and corporate customers the best banking experience

Information Technology

In 2023, Bank Dhofar's IT Unit played a pivotal role in the bank's transformative journey, combining network expansion, innovative segment launches, and strategic collaborations with large corporates and treasury initiatives.

Our IT infrastructure team successfully managed and implemented a robust infrastructure expansion that included both branch and digital banking services including ATM/MFK's to the mobile and online banking platforms. This expansion played a crucial role in providing a seamless and scalable platform for our various digital initiatives.

The team supported the Introduction targeted segment launches and we tailored our offerings to meet the diverse needs of our customers. From exclusive services for Retail customers to large corporates to specialized treasury initiatives, each segment launch was supported by IT solutions that optimized efficiency and user experience.

Key Achievements:

- The team managed an impressive portfolio of 56 projects, illustrating our commitment to excellence and collaboration.
- The team successfully completed a number of projects with tangible outcomes.

The team anchors on diligent timeline management, successfully mitigating potential delays. This underscores our dedication to deliver projects that not only meet but exceed expectations, showcasing the team's prowess in navigating complex project landscapes. Looking ahead, the team remains committed to co-create innovative digital solutions that address evolving financial landscapes.

Business Continuity Management (BCM)

Bank Dhofar places paramount importance on Business Continuity Management (BCM) to ensure uninterrupted functioning of its operations. The Bank undertakes regular reviews through various methods to ensure its capability to meet the contingency arising out of any unforeseen disasters, technological failures, and various other threats. The key purpose of the unit is to maintain operational stability, mitigating risks, and safeguarding the interests of our stakeholders.

Key Components:

- Risk Assessment: The unit conducts comprehensive risk assessments to identify potential disruptions. Through proactive planning, we ensure preparedness for various scenarios, ranging from natural disasters, floods, unforeseen fluctuations.
- Governance: Our BCM framework is built on a foundation of robust governance, aligning with international standards. The oversight and guidance provided by our dedicated BCM team ensure the continual evolution and effectiveness of our strategies.
- Technology Resilience: In an era where technology is integral to banking, ensuring the resilience of our technological infrastructure is paramount. Bank Dhofar invests in state-of-the-art technologies and backup systems to guarantee the availability and security of digital services.
- Employee Awareness: We recognize that our employees are central to the seamless execution of BCM strategies. Regular training and awareness programs empower our workforce to respond effectively during disruptions, contributing to a culture of resilience.
- Collaboration: Collaborating closely with our suppliers and partners, we extend the principles of BCM across our ecosystem. This ensures a cohesive approach to business continuity, even in scenarios where external dependencies come into play.

Bank Dhofar's commitment to BCM has been exemplified in various real-life scenarios. Whether faced with unforeseen challenges or navigating through industry shifts, our resilient BCM strategies have proven instrumental in maintaining the trust of our customers and sustaining our operations without compromise. Our commitment to BCM reflects our unwavering pledge to deliver uninterrupted, secure, and reliable financial services to our valued customers and stakeholders.

Policies and Procedures Department (PPD)

The Policies & Procedures Department (PPD) at Bank Dhofar is committed to strengthen the bank's governance, ensuring effective risk management, and maintaining internal controls. PPD acts as a custodian, overseeing the upkeep and development of policies, procedures, and frameworks across all bank departments.

Custodianship and Review: PPD is the focal point for the continuous review of policies and procedural documents. Every document within PPD's custody undergoes regular updates and thorough reviews in alignment with the defined periodic review cycles outlined in the approved Review Calendar.

In the fiscal year 2023, PPD collaborated seamlessly with other departments, control functions (Risk Management Division, Compliance Division & Internal Audit Division), and the approving authority to successfully review and obtain approval for all 51 documents listed in the 2023 Review Calendar. Additionally, the department proactively managed and completed an extra 53 documents, showcasing a commitment to excellence.

Awareness Initiatives: PPD played a pivotal role in enhancing awareness among bank staff regarding its activities and the critical policies governing the bank's operations.

Document Optimization: The team spearheaded initiatives to optimize bank documents by merging Standard Operating Procedures with Instruction Manuals, streamlining processes for enhanced clarity and efficiency.

Bawaba Portal Enhancement: PPD focused on improving the user experience of the Bawaba Portal, introducing user-friendly features that elevate the overall portal experience.

As we progress, PPD remains dedicated to fostering a culture of continuous improvement, adaptability, and transparency. By aligning policies with industry best practices and leveraging technology for efficient document management, PPD will continue to play an important role in Bank Dhofar's governance framework.

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 of excellence. Bank Dhofar 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.

During 2023, our HR initiatives have yielded tangible results. Employee satisfaction metrics have shown positive trends, and our training interventions have enhanced the skill set of our workforce. These achievements underscore the effectiveness of our holistic approach to human resource management.

Talent Management, Development & Retention

We strategically attract and retain top-tier talent, ensuring a workforce that aligns with our vision. Rigorous recruitment processes and continuous learning opportunities empower our employees to grow alongside the organization.

The Bank has implemented several programs tailored for different talent segments within the Bank. As a result of these programs, Bank Dhofar has reached over 92% Omanization and an attrition rate of 6%.

Learning & Development

Recognizing the importance of upskilling in a dynamic and ever-changing financial industry landscape, we invest in comprehensive training programs. This ensures that our workforce is equipped with the latest industry knowledge and technological advancements.

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 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, Bank Dhofar 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.

Our HR initiatives prioritize creating a positive and engaging work environment. Open communication channels, regular feedback mechanisms, and employee wellness programs contribute to a harmonious workplace. We adhere to a performance-driven culture where achievements are recognized, and growth opportunities are linked to individual contributions. Our performance management system is designed to motivate and reward excellence.

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.

The 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 RO 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 4 meetings in 2023. 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 2023 were RO 2.2m. 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.

Risk Management Division

Bank Dhofar's Risk Management Division, comprising experienced professionals, ensures the continuous existence of an effective risk management framework. It acts as an interface between management and the Board, defining risk tolerance levels and tailoring policies accordingly. Risk management involves the identification, analysis, evaluation, assessment and management of all financial and non-financial risks that could have a negative impact on the bank's performance and reputation. The Risk management function provides oversight on adherence to Board approved risk appetite and strategy, develops and maintains a support system for management of risks through procedures and training. The bank's risk management strategy also focuses on compliance with regulatory capital requirements, balanced performance across business units, stable funding, strategic liquidity management, and maintaining adequate capital adequacy.

The Board of Directors has set risk policies, limits and procedures by assessing the risk-bearing capacity of the Bank. They established the risk policies, limits, and procedures by assessing the bank's risk-bearing capacity. The risk appetite framework, approved by the Board, sets quantitative and qualitative factors, providing an enforceable risk statement aligned with financial and strategic objectives. The Board delegated the overall risk management to the independent Board Risk Committee (BRC), which, in turn, relies on the Risk Management Division (RMD) for effective execution.

In 2022/23, the bank reinforced its risk management through a transformation program, strengthening policies, procedures, processes, and risk information.

The management of various risks includes credit risk management which is managed through a robust credit risk policy, risk-adjusted return on capital computation, stress tests, and prudent lending practices. Liquidity risk is overseen by the Asset-Liability Management Committee (ALCO), with policies covering liquidity gaps, lending ratios, and contingency measures. Market risk, including foreign exchange and interest rate risk, is managed through the ALM and Investment Management Policies. Operational risk is controlled through comprehensive policies, self-assessment, key risk indicators, and loss data management frameworks. Lastly, country risk is addressed through the Country & Counterparty Bank Credit Risk policy, employing a country risk assessment methodology to assign suitable limits based on internal risk rating grades.

The Risk Management Department conducts regular training programs to instill risk awareness and foster a risk management culture. The bank continues to focus on strengthening its risk management practices, ensuring alignment with its strategic objectives and regulatory requirements.

While risks that are inherent in the banking business cannot be completely eliminated, the risk management function aims to effectively manage these risks within the tolerance levels approved by the Board while earning competitive returns commensurate to the degree of risk assumed. Risk is evaluated based on the potential impact on income and capital, taking into consideration changes in political, economic and market conditions, and the idiosyncratic factors that impact the risk exposures.

The risk management function relies on the competence, experience and dedication of its professional staff, sound risk management policies and procedures, and ongoing investment in technology and training.

The Board of Directors approves the Bank's key Risk Management policies based on reviews and recommendations of the risk management function and the relevant management committees. The risk management processes are subject to additional scrutiny by independent internal and external auditors, and the Bank's regulators which help further strengthen the risk management practices.

Credit Risk

Credit risk is the risk of financial loss due to the failure of a counterparty to perform its obligations according to agreed terms. It arises principally from lending, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk rating are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

Credit risk within the bank is actively managed by a rigorous process from initiation to approval to disbursement. All day to-day management is in accordance with well-defined credit policies and procedures that detail all credit approval requirements and are designed to identify at an early stage, exposures which require close monitoring.

Risk rating of individual counterparties plays an important role in the approval and maintenance of credit limits. The risk rating process ensures that the quality of the credit portfolio of the Bank is maintained at the highest possible level and stays within Board approved risk limits. The credit policies and procedures includes a robust risk rating system which provides a credit rating for each individual credit based on an extensive set of financial and non-financial parameters. This risk rating system has been validated and calibrated to meet the requirements of Expected Credit Loss computation under IFRS 9. The Bank has implemented the necessary automated systems, quantitative models and governance processes to be compliant with IFRS 9.

The risk management function categorizes the credit portfolio by level of risk to monitor the credit quality and to be able to assess the pricing and aid in the prompt identification of problem exposures. Management of Non-Performing Loans is vested with Recovery Department which report to the Risk Management function aims to maximize recovery through methods such as customer follow-up, negotiation for settlements, restructuring accounts with reliable repayments, and de-classification based on existing instructions and CBO regulations. It collaborates with the Legal Department, monitors legal progress, and coordinates with external entities like the Royal Oman Police and regulatory bodies. The department also assists Court Appointed Experts and manages asset classification, security/valuation of mortgaged assets, and provisions in accordance with IFRS9/CBO norms.

Market Risk

Market risk is the risk that adverse movements in market risk factors including foreign exchange rates, interest rates, credit spreads, commodity prices and equity prices will reduce the Bank's income or the value of its portfolios. Given the Bank's ongoing low risk strategy, aggregate market risk levels are low relative to the size of the Bank's balance sheet. A robust control process incorporating well defined limits is applied to effectively manage market risks and monitor daily position limits and stop losses.

Liquidity Risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. It is measured by estimating the Bank's potential liquidity and funding requirements under different stress scenarios.

The Bank's liquidity management policies and procedures are designed to ensure that funds are available under all circumstances to meet the funding requirements of the Bank not only under adverse conditions but at sufficient levels to capitalize on opportunities for business expansion. Prudent liquidity controls ensure access to liquidity without unexpected cost effects. Liquidity projections based on both normal and stressed scenarios are performed regularly. The control framework also provides for the maintenance of a prudential buffer of liquid, marketable assets and an adequately diversified deposit base in terms of maturity profile and number of counter parties.

The Risk Management function continuously monitors liquidity risk and actively manages the balance sheet to control liquidity. The treasury function manages this risk with monitoring by the Risk Management department and oversight by its Assets and Liabilities Committee (ALCO).

Operational Risk

Operational Risk is "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events."

The Bank has adopted an ongoing Operational Risk Self-Assessment (ORSA) process. Assessments are made of the operational risks identified within each function of the Bank and these are reviewed regularly to monitor significant changes and the adequacy of controls. Operational risk incident and loss data is collected and reported to senior management on a regular basis. The Bank also collates and reviews various key risk indicators (KRIs) to facilitate detection of deficiencies or potential failures in controls and procedures.

The Bank has also adopted a robust business continuity and disaster recovery process with the aim of continuing to conduct business as usual to the extent possible on a remote basis even under diverse scenarios of unavailability of premises, infrastructure or resources, with scalability for any duration of time. The adequacy of the Bank's business continuity plans is confirmed by regular testing with oversight being provided by Board Risk Committee.

Internal Capital Adequacy Assessment process

The Internal Capital Adequacy Assessment Process (ICAAP) at Bank Dhofar integrates risk and capital functions, ensuring a balanced relationship between risk profile and capital. This process, covering Pillar 1 and Pillar 2 risks, including interest rate, concentration, business, reputation, legal, and strategic risks, enhances risk management. Led by Risk Management and supported by various functional areas, ICAAP determines the Bank's internal capital adequacy.

A dedicated Working Group on Capital Planning, under ALCO, oversees the adequacy of the Bank's available capital concerning both internal and regulatory requirements.

Compliance

In 2023, Bank Dhofar's compliance activities were aligned with the regulations set by the Central Bank of Oman (CBO), Capital Market Authority (CMA), and other international capital market guidelines applicable to the bank. The Board of Directors oversees the effective Compliance function through Board-approved policies and Management-approved procedures. The first line of defense, guided by Senior Management, handles day-to-day operational compliance risk, while the Compliance Division, as the second line of defense, independently manages compliance risk through activities such as compliance monitoring & testing, gap analysis, enhanced due diligence, and transaction monitoring.

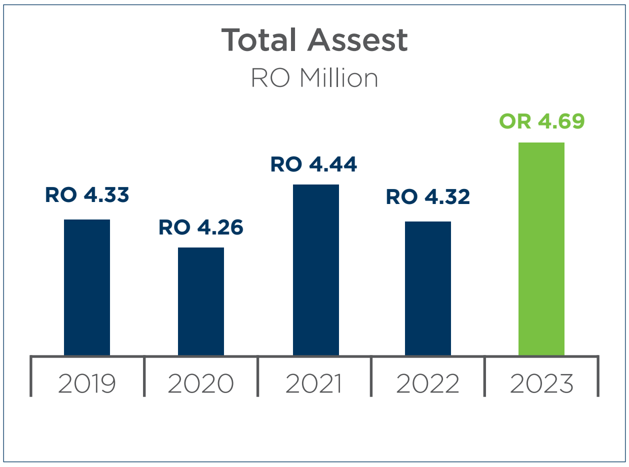
The Compliance Division, empowered by the Board-approved Compliance Policy, has direct access to the Board of Directors and reports routine compliance risk-related issues to the Board Risk Committee (BRC). Over the past three years, Bank Dhofar has undergone a fundamental restructuring of its Compliance function to meet the evolving regulatory environment and global standards. External consultants were engaged to review and transform compliance activities, including the Financial Action Task Force (FATF) Anti-Money Laundering (AML) Compliance Design & Implementation program, initiated in January 2020 and soft-concluded in May 2022.

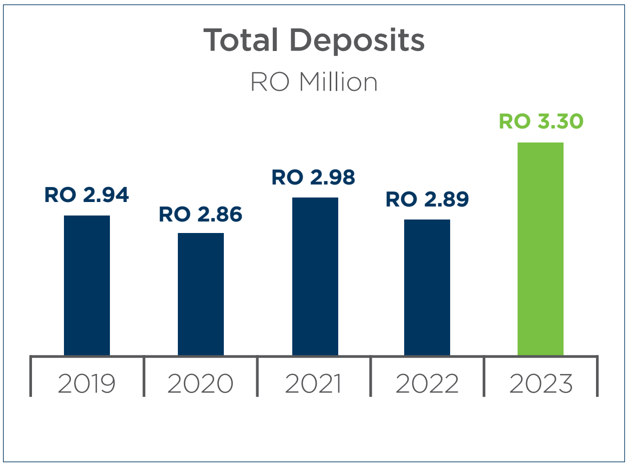
The Bank is committed to adhering to regulatory mandates, FATF recommendations, and various sanctions resolutions. Customer risk ratings, periodic reviews, and screening from sanctions databases are standard practices, and Suspicious Transaction Reports (STRs) are raised as required by legal and regulatory obligations in Oman. State-of-the-art IT systems are employed for AML monitoring, SWIFT® transaction screening, and customer screening against databases of Sanctions, Politically Exposed Persons (PEPs), adverse media, law enforcement actions, etc.

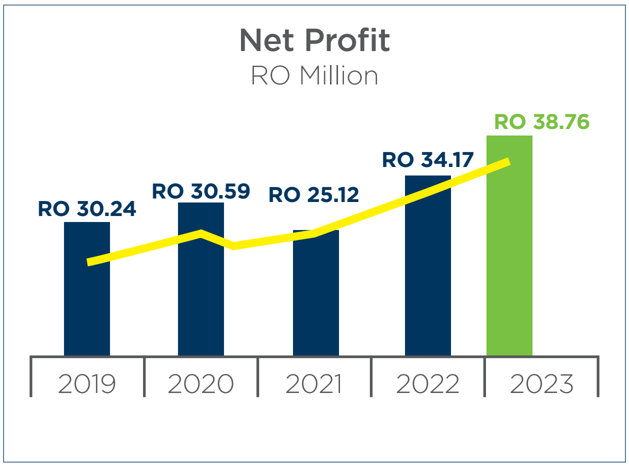
Bank Dhofar is a registered Participating Foreign Financial Institution (PFFI) with the Internal Revenue Service (IRS), Treasury Department, United States of America (U.S.) for compliance with the Foreign Account Tax Compliance Act (FATCA). Additionally, the Bank has successfully implemented regulations related to the Common Reporting Standard (CRS) as instructed by the Central Bank of Oman (CBO) and Oman Tax Authority (OTA).

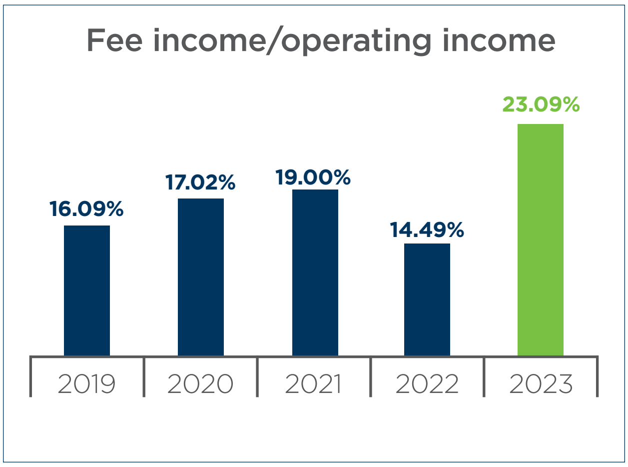
To foster a value-based compliance culture, the Bank conducts targeted training for Board members, Senior Management, and employees. This includes face-to-face role-based sessions on Customer Due Diligence, AML, Sanctions, frauds, and Anti-Bribery & Corruption, along with eLearning courses on related topics for all Bank staff. Compliance officials hold certifications such as Certified Anti-Money Laundering Specialist (CAMS), International Diploma in Governance, Risk and Compliance, and Advanced Certificate in Managing Sanctions Risk, demonstrating readiness to address emerging issues and challenges in the dynamic regulatory landscape.

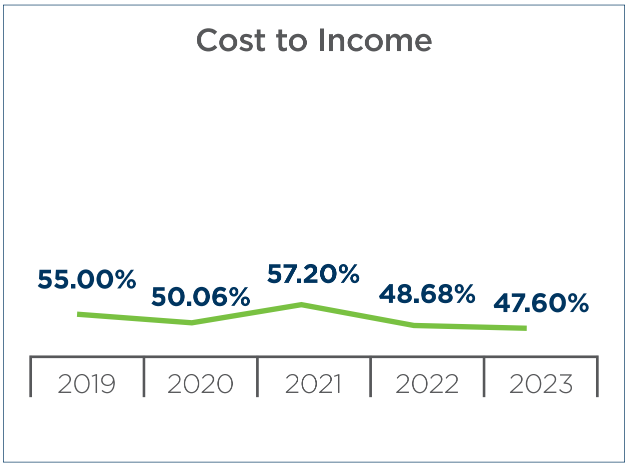
Financial Performance

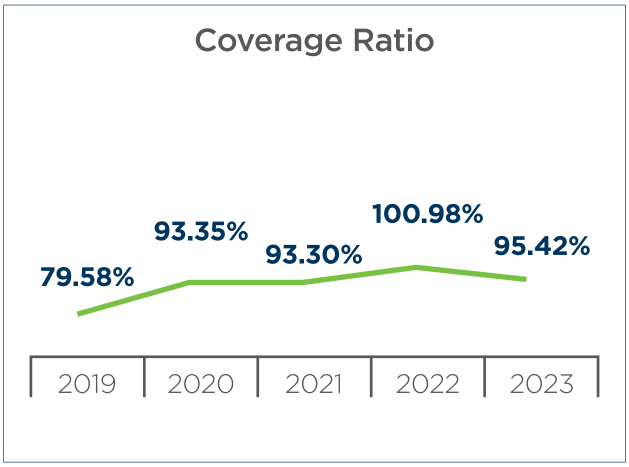


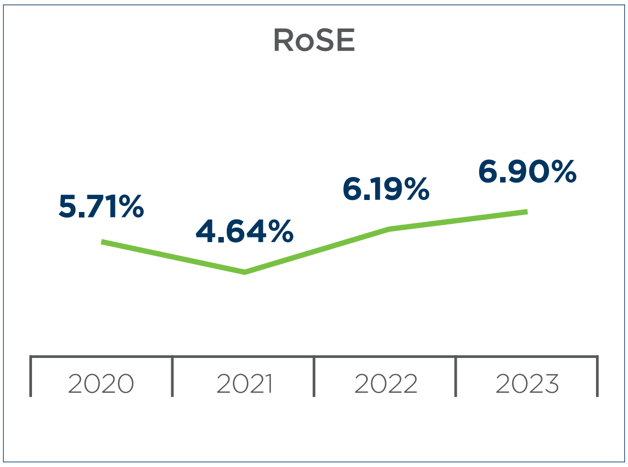


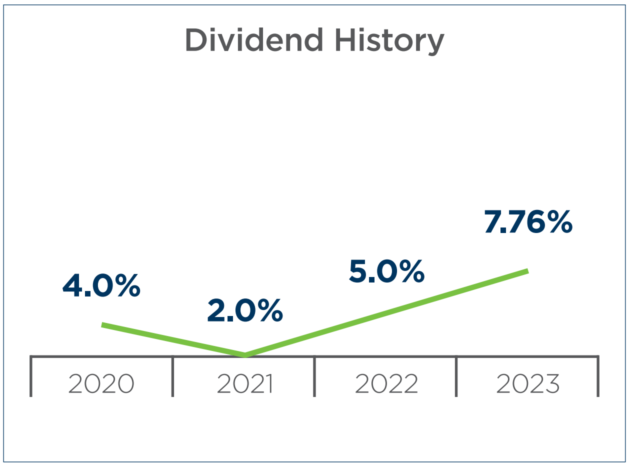












The Bank reported net profit of RO 38.76 million for the year ended 31 December 2023 compared to RO 34.17 million for the comparative year which represents an increase of 13.42%.

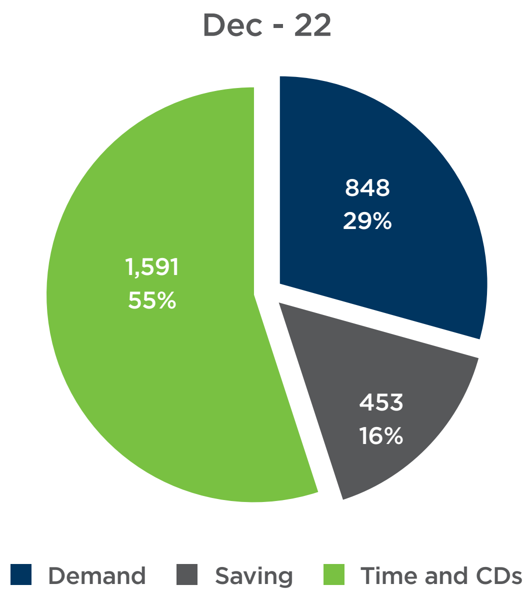
Loans and advances (including Islamic financing receivables)

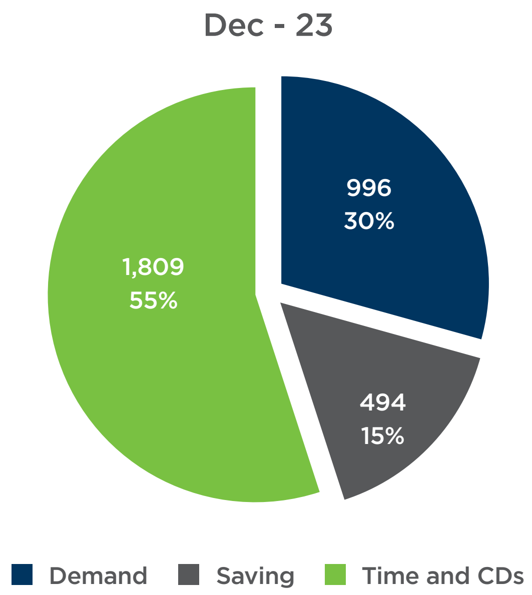
Net loans and advances including Islamic financing, exhibited YoY increase of 9.77% and reached RO 3.77 billion as at 31 December 2023 from RO 3.43 billion as at 31 December 2022. Customer Deposits including Islamic deposits also witnessed growth and recorded YoY increase of 14.09%. Customer deposits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

Analysis of our Loan portfolio by product is tabulated below:

Loans, advances and financing to customers RO'000	31-Dec-23 RO'000	31-Dec-22 RO'000	Growth %
Overdrafts	**139,050**	123,550	12.55%
Loans	**2,946,503**	2,820,805	4.46%
Loans against trust receipts	**123,088**	97,069	26.80%
Bills discounted	**64,800**	31,063	108.61%
Advance against credit cards	**10,758**	8,669	24.10%
Islamic financing receivables	**685,596**	565,496	21.24%
Gross loans, advances and financing	**3,969,795**	3,646,652	8.86%

The analysis of our Key deposits by product below:





Deposits from customers (RO Million)	31-Dec-23	31-Dec-22	Growth %
Current accounts	**825,264**	680,269	21.3%
Savings accounts	**414,476**	398,950	3.9%
Time deposits	**1,468,433**	1,324,059	10.9%
Margin accounts	**26,999**	13,409	101.3%
Islamic Customer deposits	**564,051**	475,132	18.7%
Grand Total	**3,299,223**	2,891,819	14.1%

Analysis of income and expenses:

	31-Dec-23 RO'000	31-Dec-22 RO'000	Variance %
Net Interest Income and Income from Islamic Financing	**110.82**	122.42	(9.48%)
Non funded Income	33.26	20.74	60.37%
Operating income	**144.08**	143.15	0.65%
Operating expenses	**68.65**	69.68	(1.48%)
Expected credit losses (net of recovery of bad debts)	**31.66**	33.27	(4.84%)
Net profit for the year	**38.76**	34.17	13.43%
Total assets	**4,685.80**	4,317.33	8.53%
Net loans and Islamic financing	**3,765.58**	3,430.49	9.77%
Customer deposits	**3,299.22**	2,891.82	14.09%
Total equity	**732.95**	717.08	2.21%

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

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

With the increase in Non-funded Income, total operating income stood at RO 144.08 million for the year ended 31 December 2023 as compared to RO 143.15 million for the comparative period of 2022, showing an increase of 0.65%.

The Bank continued to manage its operating expenses that were lower than last year by (1.49) % and declined to RO 68.65 million for the year ended 31 December 2023 as compared to RO 69.68 million for the previous financial year. Due to higher operating income and lower costs, the Bank's cost to income ratio improved to 47.6% in 2023, compared to 48.7% in 2022.

Net Expected Credit Loss 'ECL' for the year ending 2023 stood at RO 31.66 million after recoveries of RO 20.21 million, as compared to RO 33.27 million after recovery of 11.25 million for the year 2022, a reduction of RO 1.61 million. Gross NPL ratio for the Bank decreased to 5.39% as at 31 December 2023, from 5.87% as at 31 December 2022. Net NPL, net of interest reserve and ECL stood at 2.02% as at 31 December 2023 compared to 2.00% at 31 December 2022.

Return on Shareholders Equity (RoSE) increased from 6.19% as at 31 December 2022 to 6.90% as at 31 December 2023.

Way forward; Future Outlook

The 2024 Budget, alongside other pivotal fiscal initiatives introduced in recent months, stands poised to expedite the ongoing economic recovery in Oman. Aligned with the objectives outlined in the Oman 2040 Vision, the government's agenda for the year prioritizes driving economic diversification, fortifying fiscal sustainability, bolstering non-oil revenue growth, optimizing spending efficiency, attracting foreign investments, reducing public debt, spurring employment opportunities, nurturing entrepreneurship and SME development, and executing high-impact projects.

Bank Dhofar is primed to harness its extensive distribution network, innovative business segments, diverse product portfolio, and unwavering commitment to customer acquisition to seize the myriad business prospects poised to emerge from the government's budgetary allocations and other financial and economic initiatives throughout 2024. As a premier financial institution dedicated to serving as a catalyst for national progress, we are steadfast in our mission to propel economic growth by delivering unparalleled banking services to our valued clientele.

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

FINANCIAL HIGHLIGHTS OF LAST FIVE YEARS

(RO'000)	2023	2022	2021	2020	2019	2018
NET INTEREST INCOME (CONVENTIONAL)	90,753	100,661	82,759	92,219	84,649	87,918
NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES	20,068	21,755	19,664	15,421	10,182	9,509
NON INTEREST INCOME	33,262	20,736	24,023	22,353	35,133	34,426
OPERATING COSTS	68,648	69,683	72,340	65,079	71,474	65,456
OPERATING PROFIT (before Impairment losses)	75,435	73,469	54,106	64,914	58,490	66,397
PROFIT FROM OPERATIONS	43,775	40,204	29,455	35,923	36,092	59,743
NET PROFIT FOR THE YEAR	**38,758**	**34,173**	**25,123**	**30,585**	**30,244**	**50,281**
At year-end						
TOTAL ASSETS	4,685,797	4,317,332	4,438,786	4,257,023	4,325,845	4,213,490
NET LOANS, ADVANCES AND FINANCING	3,765,584	3,430,486	3,346,223	3,265,488	3,063,350	3,158,844
CUSTOMER DEPOSITS	3,299,223	2,891,819	2,975,639	2,861,315	2,943,188	2,924,504
TOTAL EQUITY	732,954	717,077	698,519	695,864	686,155	698,162
SHARE CAPITAL	299,635	299,635	299,635	299,635	299,635	280,033
FULL SERVICE BRANCHES	108	69	64	67	71	71
ATMs / CDMs / FFMs/ MFKs	318	230	192	189	202	190
STAFF	**1,689**	**1,509**	**1,481**	**1,522**	**1,586**	**1,600**

Financial Ratios of Last Five Years	As at 31 December 2023	As at 31 December 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
1. PROFITABILITY					
Return on Weighted Average Total Equity (including AT1)	5.40%	4.83%	3.60%	4.43%	4.37%
Return on Weighted Average Shareholders Equity	6.90%	6.19%	4.64%	5.71%	5.64%
Return on Weighted Average Paid-up Capital	12.94%	11.40%	8.38%	10.21%	10.43%
Return on Average Assets	0.86%	0.78%	0.58%	0.71%	0.71%
Non-Interest Income to Operating Income	23.09%	14.49%	19.00%	17.20%	16.09%
Operating Expenses to Operating Income	47.64%	48.68%	57.21%	50.06%	55.00%
2. LIQUIDITY					
Net Loans to Total Deposits	114.14%	118.63%	112.45%	114.13%	104.08%
Liquidity Coverage Ratio	146.97%	107.71%	123.54%	201.47%	227.57%
Net Stable Funding Ratio	108.22%	107.95%	109.24%	117.94%	122.17%
3. ASSET QUALITY RATIOS					
Loan Loss Provisions to Total Loans	5.14%	5.93%	4.77%	4.23%	3.72%
Non-Performing Loans to Total Loans	5.39%	5.87%	5.11%	4.53%	4.67%
Non-Performing Loans Net of Interest Reserve to Total Loans	4.51%	4.76%	4.26%	3.81%	3.91%
Net Non-Performing Loans	2.02%	2.00%	1.91%	1.81%	2.14%
Non-Performing Loans Coverage Ratio	95.42%	100.98%	93.29%	93.35%	79.58%
4. CAPITAL ADEQUACY					
Common Equity Tier 1 Ratio	12.99%	13.86%	12.89%	12.45%	12.59%
Tier 1 capital ratio	16.79%	16.74%	16.75%	16.27%	16.40%
Total Capital Adequacy Ratio	17.48%	18.90%	17.74%	17.70%	17.86%
Shareholder's Equity/ Total Assets	12.32%	13.01%	12.23%	12.69%	12.27%

BRANCH
NETWORK

Branch Network

Branch
MUSCAT NORTH
18 NOVEMBER BRANCH
GHALA
BAUSHER
MUSCAT INTERNATIONAL AIRPORT
KHOUDH
NEW MUSCAT INTERNATIONAL AIRPORT BRANCH
AL HAIL NORTH
AL KHOUDH (7)
MILITARY COLLEGE BRANCH
SEEB TOWN
MABELLAH INDUSTRIAL AREA
MALL OF MUSCAT
KNOWLEDGE OASIS MUSCAT (KOM)
SULTAN QABOOS UNIVERSITY
AL KHOUDH 6 BRANCH
MABELLAH BLOCK(8) BRANCH
MUSCAT SOUTH
AMARAT
AL AMERAT 6
MBD SOUTH
MBD
ROH BRANCH (AL RIADAH)
AL KHUWAIR
QURUM
RUWI
MUTTRAH
AL WATTAYA BRANCH
MUSCAT
MUSCAT GRAND MALL
QURIYAT
MINA AL FAHL
MADINAT SULTAN QABOOS BRANCH
BATINAH NORTH
SAHAM
KHABOURA
SOHAR
HAFEET
SHINAS
LIWA
AL HAMBAR SUHAR
FALAJ AL QABAIL
KHASAB
BURAIMI
SOHAR CORNICHE
BATINAH SOUTH
SUWAIQ
KHADHRA
RUSTAQ
NAKHAL
MULADDAH
BARKA
BARKA CENTER
AL BIDAYA BRANCH
AL SAWADI
DAKHILYAH & DHAIRAH
YANQUL
ADAM
NIZWA
FIRQ
BAHLA

Branch Network

IBRI
IZKI
BID BID
SUMAIL
IRAQI
DHANK
IBRI - AL MURTAFA BRANCH
DHOFAR
SALALAH
SALALAH GARDENS MALL
SAADA
TAQA
MIRBAT
SALALAH INDUSTRIAL AREA BRANCH
SHARQYAH & WOSTA
AL MUDHAIBI
SUR
AL ASHKHARA BRANCH
MASIRAH
MAHOOT
DOQUM
SINAW
MINTRIB
IBRA
KAMIL AL WAFI
SAMAD AL SHAN
SAFALT IBRA
J. B. B. ALI
JALAN BANI BU HASSAN
AL SHARIYA BRANCH

ميسرة
MAISARAH
للخدمات المصرفية الإسلامية
Islamic Banking Services

Branch
AZAIBA ISLAMIC
AL SAADA ISLAMIC
SOHAR ISLAMIC
Birkat Al Mouz Islamic
AL HAIL ISLAMIC
GREATER MUTTRAH ISLAMIC
AL KHUWAIR ISLAMIC
SUR ISLAMIC BRANCH
IBRI IRAQI ISLAMIC
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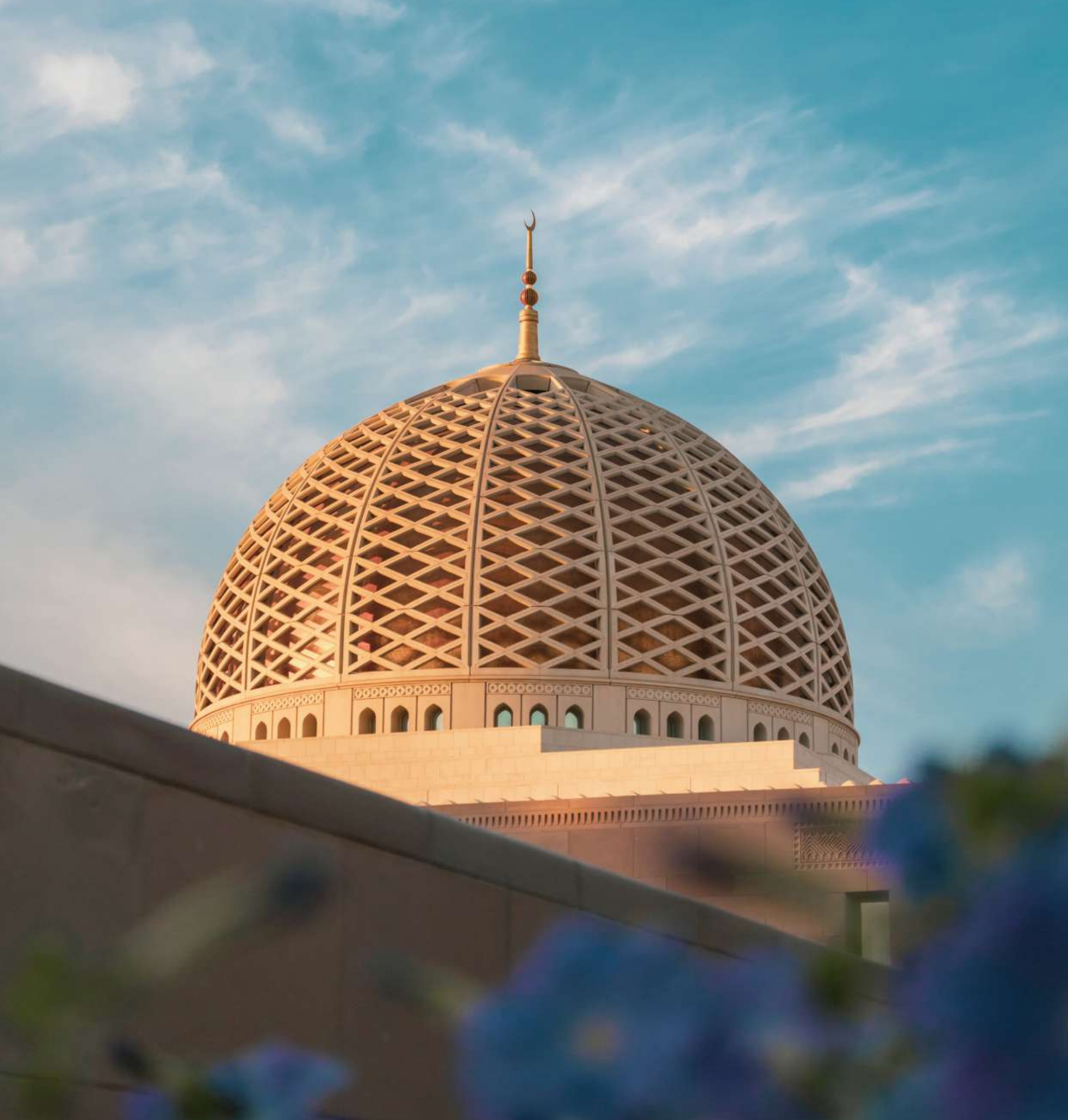
RUSTAQ IRAQI ISLAMIC
AL AMERAT ISLAMIC
FIRQ ISLAMIC
JBBA ISLAMIC BRANCH
AL MAABELLAH ISLAMIC
BARKA ISLAMIC
AL KHOUDH ISLAMIC
IBRA ISLAMIC BRANCH
SHINAS ISLAMIC
SAHAM ISLAMIC
IZKI ISLAMIC
SULTAN QABOOS UNIVERSITY ISLAMIC

Customer Engagement Hub contact details	
Bank Dhofar	24791111
Maisarah	24775777

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

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



KPMG

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Private and confidential
Our ref.: aud/km/zu/14692/24

Agreed-Upon Procedures Report on Bank Dhofar SAOG's Basel II - Pillar III and Basel III Disclosures

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 Bank Dhofar SAOG ("the Bank") for evaluating the Bank's compliance with the disclosure requirements set out in the Central Bank of Oman's ("the CBO") Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1114 dated 17 November 2013 and Circular No. 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018 and letter BSD/CB/2020/05 dated 3 June 2020 and may not be suitable for another purpose.

Responsibilities of the Bank

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

The Bank (also the Responsible Party) are responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioners' Responsibilities

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

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Practitioners' Responsibilities (continued)

Professional Ethics and Quality Control

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

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

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Bank in the terms of engagement dated 1 May 2023, on the Bank's Basel II – Pillar III and Basel III Disclosures:

S. No	Procedures	Findings
1	We have performed the procedures prescribed in the CBO Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III related disclosures ("the Disclosures") of the Bank as at and for the year ended 31 December 2023.	No exceptions noted.

This report relates only to the items specified above and does not extend to the Bank's financial statements taken as a whole.

KPMG

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

7 March 2024
KPMG LLC

Enclosures:
Bank Dhofar SAOG's Basel II – Pillar III and Basel III Disclosures

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 11% (excluding capital conservation buffer), Tier 2 capital can be admitted up to a maximum of 2% of Risk Weighted Assets (RWA) of the Bank;

  o 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 provide agreed upon procedure 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 RO 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 (Going concern capital)

With effect from 01 January 2016, Capital Conservation Buffer (CCB) has been implemented in a phased manner. The CCB was enhanced by 0.625% each year up to 2019, 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 (including Islamic banking window) 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 instruments 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 40% 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	71,831
Special reserve	16,988
Subordinated loan reserve	-
Retained earnings	57,424
Common Equity Tier (CET) I capital	**541,534**
Deferred Tax Assets	(6,209)
Less Intangible Assets, including losses, cumulative	(709)
Cumulative unrealized losses recognized directly in equity	(3,308)
CET I Capital – Regulatory Adjustments	**(10,226)**
Total CET I capital	**531,308**
Additional Tier I Capital	**155,500**
Total Tier I Capital	**686,808**
Investment revaluation reserve (45% only)	1,564
General provision (Sum of Stage 1 and permitted Stage 2 provision subject to max of 1.25% of credit RWA)	26,989
Subordinated loans	-
Total Tier II capital	**28,553**
Total eligible capital (Tier I + Tier II Capital)	**715,361**

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 17.48% as against the CBO requirement of 12.25% as at 31 December 2023. The Bank's Total Capital Adequacy Ratio, without add-back of the incremental Stage 2 ECL to Tier-2 capital , is 17.22%. 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	4,746,560	4,578,289	3,462,090
2	Off balance sheet items	675,502	668,279	274,763
3	Derivatives	782,746	782,746	14,259
4	**Total Credit Risk**	**6,204,808**	**6,029,314**	**3,751,112**
5	**Market Risk**	**-**	**-**	**82,854**
6	**Operational Risk**	**-**	**-**	**257,700**
7	**Total Risk Weighted Assets**	**-**	**-**	**4,091,666**

* 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**	**299,635**
1	Tier 1 Capital	686,808
2	Tier 2 Capital	28,553
3	Tier 3 Capital	-
4	**Total eligible capital**	**715,361**
5	Risk weighted assets for Credit Risk	3,751,112
6	Risk weighted assets for Market Risk	82,854
7	Risk weighted assets for Operational Risk	257,700
8	**Total Risk weighted assets**	**4,091,666**
9	Common Equity Capital Ratio	7.32%
10	Tier 1 Capital Ratio	16.79%

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. The credit risk policy is continuously reviewed to ensure that it always meets regulatory standards and the business environment.

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.

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, Mid sector corporate 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 exposure to local banks is capped at 15% of the Bank's net worth. 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.

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.1 Credit Risk (Continued)

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.

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)

i) **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	**2023**	2022	**2023**	2022
1	Overdrafts	**128,755**	119,878	**139,050**	123,550
2	Loans	**2,780,810**	2,729,681	**2,946,503**	2,820,805
3	Loans against trust receipts	**113,885**	95,687	**123,088**	97,069
4	Bills purchased /discounted	**47,998**	32,843	**64,800**	31,063
5	Advance against credit cards	**8,575**	8,272	**10,758**	8,669
	Conventional Total	**3,080,023**	2,986,361	**3,284,199**	3,081,156
	Islamic				
6	Murabaha Receivables	**24,392**	25,273	**29,515**	18,823
7	Mudaraba Financing	**8,071**	12,064	**7,511**	9,437
8	Ijarah Assets	**63,261**	53,478	**63,159**	63,814
9	Wakala Financing	**84,787**	76,701	**100,670**	76,229
10	Diminishing Musharaka Financing	**452,304**	368,800	**484,741**	397,193
	Total Islamic	**632,815**	536,136	**685,596**	565,496
	Grand Total	**3,712,838**	3,522,677	**3,969,795**	3,646,652

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.1 Credit Risk (Continued)

ii) 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	139,050	-	-	-	-	-	139,050
2	Personal Loans	2,946,503	-	-	-	-	-	2,946,503
3	Loans against trust Receipts	122,847	-	-	-	-	241	123,088
4	Bills Purchased / negotiated	10,758	-	-	-	-	-	10,758
5	Advance against credit cards	64,493	-	-	-	-	307	64,800
6	**Total - Conventional**	**3,283,651**	**-**	**-**	**-**	**-**	**548**	**3,284,199**
	Islamic							
7	Murabaha Receivables	29,515	-	-	-	-	-	29,515
8	Mudaraba Financing	7,511	-	-	-	-	-	7,511
9	Ijarah Assets	63,159	-	-	-	-	-	63,159
10	Wakala Financing	100,670	-	-	-	-	-	100,670
11	Diminishing Musharaka Financing	484,741	-	-	-	-	-	484,741
12	Total - Islamic	685,596	-	-	-	-	-	685,596
13	**Total - Consolidated**	**3,969,247**	**-**	**-**	**-**	**-**	**548**	**3,969,795**

*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)

iii) **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	18,220	74,864	127	4,129	97,340	23,183
2	Export trade	1,944	4,604	-	146	6,694	2,748
3	Wholesale/retail trade	6,954	99,728	-	6,530	113,212	16,601
4	Mining and quarrying	2,035	161,293	-	16	163,344	22,135
5	Construction	45,183	218,549	-	39,972	303,704	160,441
6	Manufacturing	19,176	138,648	6,561	17,384	181,769	37,337
7	Electricity, gas, and water	1,003	185,733	-	1,968	188,704	15,382
8	Transport and Communication	8,315	173,462	-	556	182,333	1,492
9	Financial institutions	4,040	209,668	365	17,147	231,220	266,318
10	Services	20,535	338,602	125	15,960	375,222	38,093
11	Personal loans	3,640	1,213,350	-	11,834	1,228,824	2,199
12	Agriculture and allied Activities	3,657	635	-	6,245	10,537	922
13	Government	-	10	-	11,683	11,693	53,570
14	Non-resident lending	-	242	306	-	548	-
15	Others	4,348	812,711	57,316	276	874,651	35,081
	Total (1 to 15)	**139,050**	**3,632,099**	**64,800**	**133,846**	**3,969,795**	**675,502**

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.1 Credit Risk (Continued)

v) **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**	893
2	1 - 3 months	6,198	157,935	-	66	**164,199**	19,368
3	3 - 6 months	6,198	81,937	33,737	2,808	**124,680**	29,614
4	6 - 9 months	6,198	11,467	222	3,207	**21,094**	25,551
5	9 - 12 months	6,198	18,220	30,841	2,193	**57,452**	13,219
6	1 - 3 years	30,853	209,280	-	55,305	**295,438**	198,712
7	3 – 5 years	30,853	112,203	-	13,329	**156,385**	129,289
8	Over 5 years	46,354	3,008,933	-	56,729	**3,112,016**	258,856
	TOTAL	**139,050**	**3,632,099**	**64,800**	**133,846**	**3,969,795**	**675,502**

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.1 Credit Risk (Continued)

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

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.1 Credit Risk (Continued)

vi) 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	**3,755,234**	**214,013**	**69,027**	**98,720**	**35,023**	**31,660**	**38,741**
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries*	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	**548**	-	-	-	-	-	-
7	**TOTAL**	**3,755,782**	**214,013**	**69,027**	**98,720**	**35,023**	**31,660**	**38,741**

*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	2,657,029	775,544	214,079	3,646,652
2	Migration/changes (+/-)	(20,661)	10,151	10,510	-
3	New Loans	2,237,009	563,825	51,530	2,852,364
4	Recovery from Loans	(1,957,103)	(510,012)	(23,366)	(2,490,481)
5	Loans written off	-	-	(38,740)	(38,740)
6	**Closing Balance**	**2,916,274**	**839,508**	**214,013**	**3,969,795**
7	Total Provisions	12,986	56,042	98,719	167,747

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:

i) 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.

ii) 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 2023 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)	470,551	-	-	-	-	-	-	-	-	-	470,551
2	Banks (Rated)	30,800	-	-	126,294	-	82,460	-	38,500	261	-	278,315
3	Corporate	231,703	-	-	-	-	-	-	1,712,946	-	7,046	1,951,695
4	SME	-	-	-	-	-	-	89,247	-	-	119	89,366
5	Retail	6,428	-	-	-	-	-	149,380	564,095	-	-	719,904
6	Claims secured by residential property	-	-	-	-	626,555	-	-	39,912	-	-	666,467
7	Claims secured by commercial property	-	-	-	-	-	-	-	264,616	-	-	264,616
8	Past due loans	-	-	-	-	-	-	-	214,013	-	-	214,013
9	Other assets	2,957	-	-	-	-	-	-	141,135	-	-	144,092
10	Un-drawn exposure	-	-	-	-	753	-	1,049	54,046	-	295	56,142
11	Derivative	-	528,876	149,267	-	-	-	-	1,506	-	-	679,649
12	Non funded-Bank	-	-	-	18,728	4,628	114,673	1,671	182,064	40,425	-	362,189
	Total	**742,439**	**528,876**	**149,267**	**145,022**	**631,936**	**197,133**	**241,347**	**3,212,834**	**40,686**	**7,460**	**5,897,000**

iii) 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 MSX 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 52.30 million in OTC derivatives (such as interest rate swap) and risk weighted assets of RO 1.70 million as at 31 Dec 2023.

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.

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.5 Market Risk: (Continued)

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.

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

i) 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	4,650	9,301
Economic Value of Equity	57,511	115,023
Impact on earning as a % of NII	4.21%	8.43%
Impact as a % of Bank's Net worth	7.98%	15.95%

ii) 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. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.5 Market Risk: (Continued)

iii) 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.

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.

iv) Commodity Risk

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

v) 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 RO 10.96 million as on 31.12.2023, VaR works out to RO 1.39 million at 99% confidence level and 13% of the domestic quoted equity portfolio.

vi) 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:

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.5 Market Risk: (Continued)

Type of risk	RO'000 Amount
Interest Rate Risk	121
Equity Position Risk	-
Commodities Position risk	-
Foreign Exchange position risk	6,508
TOTAL	**6,629**

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. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

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.

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 2023 on consolidated basis.

4. Liquidity Standards: (Continued)

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 2023.

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 RO'000)

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

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

	Item	As at 31st December 2023	As at 31st December 2022
1	Total consolidated assets as per published financial statements	**4,685,797**	4,317,332
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	**9,734**	12,161
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)	**290,266**	308,370
7	Other adjustments		
8	Leverage ratio exposure	**4,985,797**	4,622,897

4. Liquidity Standards: (Continued)

4.2 Net Stable Funding Ratio (NSFR): (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 2023**	**As at 31st December 2022**
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**4,685,797**	4,317,332
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)	**4,685,797**	4,317,332
	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	**9,734**	12,161
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)**	**9,734**	12,161
	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	**675,502**	662,748
18	(Adjustments for conversion to credit equivalent amounts)	**(385,236)**	(354,378)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**290,266**	296,956
	Capital and total exposures		
20	**Tier 1 capital**	**686,808**	680,103
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**4,985,797**	4,745,704
	Leverage Ratio		
22	**Basel III leverage ratio (%)**	**13.78%**	14.33%

With reference to CBO BSD/CB/2020/005 the Bank 's leverage ratio (13.78%)

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DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2023

Basel III Capital Disclosure Template 31/12/2023

	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	57,424	-
3	Accumulated other comprehensive income (and other reserves)	88,819	-
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**	541,534	-
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments	4,017	-
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)	6,209	-
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)	-	-

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DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2023

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments		Amount Subject to Pre-Basel III treatment
		(RO '000)	
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**	10,226	-
29	**Common Equity Tier 1 capital (CET 1)**	531,308	-
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	-	-

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DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2023

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	IInvestments 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)**	686,808	-
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	28,553	-
51	**Tier 2 capital before regulatory adjustments**	28,553	-
Tier 2 capital: Regulatory Adjustments			
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross holdings in Tier 2 instruments	-	-

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments		Amount Subject to Pre-Basel III treatment
		(RO '000)	
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)**	28,553	-
59	**Total Capital (TC = T 1 + T 2)**	715,361	-
	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)**	4,091,666	-
60a	of which: Credit Risk Weighted Assets	3,751,112	-
60b	of which: Market Risk Weighted Assets	82,854	-
60c	of which: Operational Risk Weighted Assets	257,700	-
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.99%	-
62	Tier 1 (as a percentage of risk weighted assets)	16.79%	-
63	Total capital (as a percentage of risk weighted assets)	17.48%	-
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			Amount Subject to Pre-Basel III treatment
		(RO '000)	
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)	4.74%	-
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)	28,553	-
77	Cap on inclusion of provisions in Tier 2 under standardized approach	46,889	-
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 2023)			
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	-

BankDhofar S.A.O.G
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2023

Basel III Capital Disclosure Template (Continued)

	CA Report 1 (For CBO Use only)	**RO ' 000**
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	541,534
2	Regulatory Adjustments to CET1	10,226
3	CET1	**531,308**
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)	**686,808**
8	Tier 2 Capital before Regulatory Adjustments	28,553
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	**28,553**
11	Total Capital (11=7+10)	**715,361**
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	**4,091,666**
13	Credit Risk Weighted Assets	3,751,112
14	Market Risk Weighted Assets	82,854
15	Operational Risk Weighted Assets	257,700
16	CET1 (as a percentage of TRWA) (in %) 8.25%	**12.99%**
17	Tier 1 (as a percentage of TRWA) (in %) 10.25%	**16.79%**
18	Total capital (as a percentage of TRWA) (in %) 12.25%	**17.48%**

Consolidated Conventional and Maisarah Islamic Banking

	Bank Dhofar SAOG Details	31st December-2023 Amount RO ' 000
1	Common Equity Tier 1 capital (CET 1)	531,308
2	Tier I Capital (after supervisory deductions)	686,808
3	Tier II capital (after supervisory deductions & upto eligible limits)	28,553
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**	**3,751,112**
7	**Risk Weighted Assets – Operational Risk**	**257,700**
8	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**4,008,812**
9	Minimum required capital to support RWAs of banking book & operational risk	440,969
	1) Minimum required Tier I Capital for banking book & operational risk	412,416
	2) Tier II Capital required for banking book & operational risk	28,553
10	Tier I capital available for supporting Trading Book	274,392
11	Tier II capital available for supporting Trading Book	-
12	**Risk Weighted Assets – Trading Book**	**82,854**
13	Total capital required to support Trading Book	9,114
14	Minimum Tier I capital required for supporting Trading Book	2,597
15	Used Eligible Tier III Capital	-
16	Total Regulatory Capital	715,361
17	Total Risk Weighted Assets – Whole bank	**4,091,666**
18	Common Equity Tier 1 Ratio	**12.99%**
19	Tier 1 Ratio	**16.79%**
20	Total Capital Adequacy Ratio	**17.48%**
21	Unused but eligible Tier III Capital	**-**
22	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	**4.74%**

BankDhofar S.A.O.G
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2023

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	125,931.00	-	-
Balances with bank and money at call and short notice	227,078.00	-	-
Investments:	459,477.00	-	-
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	3,099,314.00	-	-
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	666,270.00	-	-

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	8,600.00	-	-
Other Asset	80,578.00	-	-
Of which,	-	-	-
Goodwill & Intangible Assets	-	-	a
Out of which	-	-	-
Goodwill	-	-	-
Other Intangibles (excluding MSRs)	12,340.00	-	-
Deferred Tax Assets	6,209.00	-	-
Goodwill on Consolidation	-	-	-
Debit balance in Profit & Loss Account	-	-	-
Total Assets	**4,685,797.00**		-
Capital & Liabilities			
Paid up capital	455,135.00	-	-
of which:	-	-	-
Amount eligible for CET 1	299,635.00	-	h
Amount eligible for AT1	155,500.00	-	i
Reserves & Surplus	277,819.00	-	j
Share Premium	95,656.00	-	k
Legal Reserve & Special Reserve	88,819.00	-	l
Special reserve – restructured loans	1,281.00	-	-
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 2023

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)	(58.00)	(4,017.00)	n
Retained Earnings ((The proposed dividend payment amount is excluded from retained earnings)	80,646.00	57,424.00	o
Total Capital			
Deposits			
Of which,	-	-	-
Deposit from Banks	505,916.00	-	-
Customer Deposits	2,735,172.00	-	-
Deposit of Islamic Banking Window	564,051.00	-	-
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	147,704.00	-	-
Of which,	-	-	-
DTLs related to goodwill	-	-	-
DTLs related to intangible assets	-	-	-
Total Liabilities	**4,685,797.00**	-	-

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	57,424	-
3	Accumulated other comprehensive income (and other reserves)	184,475	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	541,534	-
7	Prudential valuation adjustments	4,017	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)	6,209	-

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

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	OM0000009205
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	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)	RO 40 million
9	Par Value of Instrument	RO 40 million
10	Accounting Classification	Equity
11	Original date of issuance	27-Dec-2023
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 2028 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 2028, means each 27 June and 27 December thereafter, at the option of the Bank.

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
Coupons / Dividends		
17	Fixed or floating dividend coupon	Fixed
18	Coupon rate & any related index	The Bonds shall bear interest from (and including) the Issue Date to (but exclud-ing) the First Call Date at a rate of 7.0% per annum (Ini-tial Interest Rate) on the outstanding prin-cipal amount of the Bonds. The Bonds shall bear interest from each Reset Date to the next Reset Date at the then prevailing Relevant 5 Year Reset Rate as defined in the Prospectus. Re-set 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

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) The Regulator has notified the Bank in writing that it has determined that the Bank is, or 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 is, or will become, Non-Viable, whichever is earlier. In relation to the Bank, non-viable means (a) insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business, or (b) any other event or circumstance which is specified as constituting non-viability by the Regulator or as is set out in the applicable banking regulations.
32	If Write down, full or partial	Full or Part
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 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)	RO 115.5 Mn
9	Par Value of Instrument	RO 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

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 2023.

The disclosure for Liquidity Coverage Ratio for Bank Dhofar consolidated (i.e. conventional entity + Islamic Window entity) as at 31st December 2023 is as follows:

Sl. No.	Bank Dhofar Consolidated LCR Disclosure for the Quarter ending: Dec 2023	Total Unweighted Value (average) RO '000	Total Weighted Value (average) RO '000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)	-	539,879.11
Cash Outflows			
2	Retail deposits and deposits customers, from small business customer, of which:	582,453.42	39,837.50
3	Stable deposits	344,213.42	16,013.50
4	Less stable deposits	238,240.00	23,824.00
5	Unsecured wholesale funding, of which:	1,054,777.42	540,575.78
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	1,054,777.42	540,575.78
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	420,621.07	35,164.71
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	420,621.07	35,164.710
14	Other contractual funding obligations	86,085.37	86,058.37
15	Other contingent funding obligations	664,191.27	33,209.56
16	**TOTAL CASH OUTFLOWS**	**-**	**734,872.93**
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

Sl. No.	Bank Dhofar Consolidated LCR Disclosure for the Quarter ending: Dec 2023	Total Unweighted Value (average) RO '000	Total Weighted Value (average) RO '000
18	Inflows from fully performing exposures	588,910.44	273,656.83
19	Other cash inflows	46,690.14	46,690.14
20	**TOTAL CASH INFLOWS**	**635,600.58**	**320,346.98**
			Total Adjusted Value
21	**TOTAL HQLA**	-	**539,879.11**
22	**TOTAL NET CASH OUTFLOWS**	-	**414,525.95**
23	**LIQUIDITY COVERAGE RATIO (%)**	-	**130.24**

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 146.97% as at 31.12.2023 (107.71% as at 31.12.2022). The Bank is in compliance of the regulatory limit of LCR as at 31st December 2023, with LCR of 130.24% calculated on weighted average value for the year (2022: 123.63%).

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

The Bank provides Shari'a compliant services and products through a window under the name of "Maisarah Islamic Banking Services (MIBS)". LCR for Maisarah Islamic Banking Services is separately computed and the average position as at 31st December 2023 is given below:

Sl. No.	Maisarah Islamic Banking Services(MIBS) LCR Disclosure for the Quarter ending: Dec 2023	Total Unweighted Value (average) RO '000	Total Weighted Value (average) RO '000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)	-	97,791.88
Cash Outflows			
2	Retail deposits and deposits customers, from small business customer, of which:	93,428.85	7,060.79
3	Stable deposits	42,510.11	1,968.92
4	Less stable deposits	50,918.74	5,091.87
5	Unsecured wholesale funding, of which:	152,126.86	78,537.78
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	152,126.86	78,537.78
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	47,466.46	4,427.89
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	47,466.46	4,427.89
14	Other contractual funding obligations	13,261.72	13,261.72
15	Other contingent funding obligations	21,362.22	1,068.11
16	**TOTAL CASH OUTFLOWS**	**-**	**104,356.30**
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	96,917.63	37,439.82
19	Other cash inflows	12,906.77	12,906.77
20	**TOTAL CASH INFLOWS**	**109,824.41**	**50,346.60**

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

			Total Adjusted Value
21	**TOTAL HQLA**	-	**97,791.88**
22	**TOTAL NET CASH OUTFLOWS**	-	**54,009.70**
23	**LIQUIDITY COVERAGE RATIO (%)**	-	**181.06**

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 366.45% as at 31.12.2023 (132.19% as at 31.12.2022). The Bank is in compliance of the regulatory limit of LCR as at 31st December 2023, with LCR of 181.06% calculated on weighted average value for the year (2022: 186.37%).

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-23**
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:	1,733,119.91	-	-	-	1,733,119.91
2	Regulatory capital	708,927.16	-	-	-	708,927.16
3	Other capital instruments	1,024,192.76	-	-	-	1,024,192.76
4	Retail deposits and deposits from small business customers	580,210.82	40,718.61	136,431.62	-	700,419.26
5	Stable deposits	308,747.50	2,461.25	64,676.50	-	357,091.01
6	Less stable deposits	271,463.33	38,257.36	71,755.13	-	343,328.25
7	Wholesale funding:	607,528.06	410,702.08	598,227.05	-	808,228.58
8	Operational deposits	4,148.48	-	-	-	2,074.24

9	Other wholesale funding	603,379.59	410,702.08	598,227.05	-	806,154.34
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	-	-	-	-
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in above categories	509,298.38	-	-	-	-
14	**Total ASF**	**-**	**-**	**-**	-	**3,241,767.74**
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	18,404.89
16	Deposits held at other financial institutions for operational purposes	20,203.97	-	-	-	10,101.98
17	Performing loans and securities:	-	304,039.92	876,567.29	2,646,427.06	2,633,155.76
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	-	-	23,863.97	-	11,931.99
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	-	304,039.92	852,703.31	-	480,451.88
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:	-	-	-	2,079,537.56	1,767,606.93
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	543,455.54	353,246.10
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	23,433.96	19,918.87
25	Assets with matching interdependent liabilities	-	-	-	-	-

26	Other Assets:	-	-	-	237,525.48	238,729.73
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	-	-	-	237,525.48	237,525.48
32	Off-balance sheet items	-	-	-	-	54,240.62
33	**TOTAL RSF**	**-**	**-**	**-**	**-**	**2,954,632.99**
34	**NET STABLE FUNDING RATIO (%)**	**-**	**-**	**-**	**-**	**109.72%**

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 2023.

NSFR is computed on a monthly basis and year end position of NSFR for Bank Dhofar (consolidated entity) at 108.04% as at 31 December 2023 (107.95% as at 31 December 2022). The Bank is in compliance of the regulatory limit of NSFR as at 31 December 2023.

LCR of 146.97% calculated on weighted average value for the year (2023: 139.08%).

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENT

31 DECEMBER 2023

KPMG

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Independent auditors' report

To the Shareholders of Bank Dhofar SAOG

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Continued from page 4

Key Audit Matters *(continued)*

Impairment of loans and advances and Islamic financing

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

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

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Continued from page 5

Key Audit Matters *(continued)*

Impairment of loans and advances and Islamic financing

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

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

Other Matter

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

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

7 March 2024
Kenneth Macfarlane

KPMG LLC

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

Statement of Financial Position

For the year ended 31 December 2023

2023 USD'000	2022 USD'000		Note	2023 RO'000	2022 RO'000
		Assets			
327,094	458,745	Cash and balances with Central Bank of Oman	5	**125,931**	176,617
1,193,447	1,219,278	Investment securities	8	**459,477**	469,422
589,813	385,332	Loans, advances and financing to banks	6	**227,078**	148,353
8,050,166	7,481,738	Loans, advances and financing to customers (conventional)	7	**3,099,314**	2,880,469
1,730,571	1,428,616	Islamic financing receivables	7	**666,270**	550,017
209,294	174,494	Other assets	11	**80,578**	67,180
16,127	15,914	Deferred tax assets	24	**6,209**	6,127
22,338	32,647	Property and equipment	10	**8,600**	12,569
32,052	17,085	Intangible assets	9	**12,340**	6,578
12,170,902	11,213,849	**Total assets**		**4,685,797**	4,317,332
		Liabilities			
1,314,068	1,487,901	Due to banks	12	**505,916**	572,842
7,104,343	6,277,110	Deposits from customers (conventional)	13	**2,735,172**	2,416,687
1,465,068	1,234,109	Islamic customers deposits	13	**564,051**	475,132
338,844	313,829	Other liabilities	14	**130,455**	120,824
40,283	35,408	Tax Liabilities	24 (e)	**15,509**	13,632
4,519	2,956	Employee benefit obligations	14 (a)	**1,740**	1,138
10,267,125	9,351,313	**Total liabilities**		**3,952,843**	3,600,255
		Shareholder's equity			
778,273	778,273	Share capital	15	**299,635**	299,635
248,457	248,457	Share premium	17	**95,656**	95,656
186,574	176,506	Legal reserve	18 (a)	**71,831**	67,955
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)
-	(9,107)	Investment revaluation reserve	18(c)	**(58)**	(3,506)
209,470	187,255	Retained earnings	19	**80,646**	72,093
1,500,030	1,458,641	**Total equity attributable to the equity holders of the Bank**		**577,454**	561,577
403,896	403,896	Perpetual Tier 1 Capital Securities	16	**155,500**	155,500
1,903,926	1,862,537	**Total equity**		**732,954**	717,077
12,171,051	11,213,850	**Total liabilities and equity**		**4,685,797**	4,317,332
1,754,551	1,721,423	**Contingent liabilities and commitments**	28(a)	**675,502**	662,748
0.50	0.47	**Net assets per share (Rial Omani)**	20	**0.193**	0.187

The financial statements including notes and other explanatory information on pages 134 to 243 were approved and authorised for issue by the Board of Directors on 28 January 2024 and were signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

Abdul Hakeem Al Ojaili
Chief Executive Officer

Independent auditor's report - pages 121 to 125

Statement of Comprehensive Income

For the year ended 31 December 2023

2023 USD'000	2022 USD'000		Note	2023 RO'000	2022 RO'000
570,912	480,018	Interest income	21	**219,801**	184,807
(335,190)	(218,561)	Interest expense	22	**(129,048)**	(84,146)
235,722	261,457	**Net interest income**		**90,753**	100,661
108,603	94,706	Income from Islamic financing / Investments	21	**41,812**	36,462
(56,478)	(38,200)	Unrestricted investment account holders' share of profit and profit expense	22	**(21,744)**	(14,707)
52,125	56,506	**Net income from Islamic financing and investment activities**		**20,068**	21,755
79,068	49,883	Fees and commission income	29	**30,441**	19,205
(14,932)	(11,203)	Fees and commission expense	29	**(5,749)**	(4,313)
64,136	38,680	**Net fees and commission income**		**24,692**	14,892
22,260	15,179	Other operating income	22(a)	**8,570**	5,844
374,243	371,822	**Operating income**		**144,083**	143,152
(161,413)	(162,662)	Staff and administrative costs	23	**(62,144)**	(62,625)
(16,894)	(18,332)	Depreciation	9&10	**(6,504)**	(7,058)
(178,307)	(180,994)	**Operating expenses**		**(68,648)**	(69,683)
(84,442)	(89,203)	Net Impairment loses on financial assets	7	**(32,510)**	(34,343)
2,208	2,800	Recovery of bad debts written-off		**850**	1,078
113,702	104,425	**Profit from operations after provision**		**43,775**	40,204
(13,032)	(15,665)	Income tax expense	24	**(5,017)**	(6,031)
100,670	88,760	**Profit for the period**		**38,758**	34,173
		Other comprehensive income:			
		Items that will not be reclassified to P&L:			
369	(1,055)	Movement in fair value reserve (FVOCI equity instrument)		**142**	(406)
(1,182)	-	Realised loss FVOCI equity instrument		**(455)**	-
		Items that are or may be reclassified to profit or loss in subsequent periods:			
8,587	979	Movement in fair value reserves (FVOCI debt instruments)		**3,306**	377
7,774	(76)	Other comprehensive income/(loss) for the period		**2,993**	(29)
108,444	88,684	**Total comprehensive income for the period**		**41,751**	34,144
0.02	0.02	**Earnings per share attributable to equity shareholders of the Bank (basic and diluted) (Rials Omani)**	25	**0.009**	0.008

The notes on pages 134 to 243 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2023

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

"The notes on pages 134 to 243 are an integral part of these financial statements"

Statement of Changes in Equity

For the year ended 31 December 2023

	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 2023		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
Profit for the period		-	-	-	-	-	-	-	-	-	100,670	100,670	-	100,670
Other comprehensive income for the period:														
Net changes in fair value reserve		-	-	-	-	-	-	-	-	-	-	-	-	-
FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	369	(1,182)	(813)	-	(813)
FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	8,587	-	8,587	-	8,587
Total comprehensive income for the period		-	-	-	-	-	-	-	-	8,956	99,488	108,444	-	108,444
Transfer to legal reserve	18(a)	-	-	10,068	-	-	-	-	-	-	(10,068)	-	-	-
Transfer to subordinated loan reserve	18(b)	-	-	-	-	-	-	-	18,182	-	(18,182)	-	-	-
Transfer to Retained Earnings	18(d)	-	-	-	-	-	-	-	-	-	-	-	-	-
Perpetual Tier 1 capital securities:		-	-	-	-	-	-	-	-	-	-	-	-	-
Repayment of Tier 1 capital securities	16	-	-	-	-	-	-	-	-	-	-	-	(103,896)	(103,896)
Issuance of Tier 1 capital securities	16	-	-	-	-	-	-	-	-	-	-	-	103,896	103,896
Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(28,044)	(28,044)	-	(28,044)
AT 1 Issuance Cost		-	-	-	-	-	-	-	-	-	(244)	(244)	-	(244)
Dividend paid	35	-	-	-	-	-	-	-	-	-	(38,917)	(38,917)	-	(38,917)
Balances as at 31 December 2023		778,273	248,457	186,574	44,125	3,327	31,647	(1,842)	-	(151)	209,470	1,499,881	403,896	1,903,777

"The notes on pages 134 to 243 are an integral part of these financial statements"

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
Total comprehensive income for the period		-	-	-	-	-	-	-	-	(29)	34,173	34,144	-	34,144
Transfer to legal reserve	18(a)	-	-	3,417	-	-	-	-	-	-	(3,417)	-	-	-
Transfer to subordinated 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	-	-	-	-	-	-	-	-	-	-	-	(115,500)	(115,500)
Issuance of Tier 1 capital securities	16	-	-	-	-	-	-	-	-	-	-	-	(115,500)	(115,500)
Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(9,376)	(9,376)	-	(9,376)
AT 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 134 to 243 are an integral part of these financial statements"

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	-	-	-	-	-	-	-	-	-	-	-	(300,000)	(300,000)
Issuance of Tier 1 capital securities	16	-	-	-	-	-	-	-	-	-	-	-	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 134 to 243 are an integral part of these financial statements"

Statement of Cash Flows

For the year ended 31 December 2023

2023 USD'000	2022 USD'000		Note	2023 RO'000	2022 RO'000
		CASH FLOWS FROM OPERATING ACTIVITIES			
113,702	104,426	Profit for the year before taxation		**43,775**	40,204
		Adjustment for:			
16,894	18,332	Depreciation, amortisation and impairment	9 &10	**6,504**	7,058
86,416	86,403	Net Impairment on financial asset and recovery of bad debts written-off	7	**33,270**	33,265
(1,732)	(688)	Dividend income	22(b)	**(667)**	(265)
912	756	End of Service provision for the year		**351**	291
(99)	299	Revaluation loss		**(38)**	115
-	(247)	Gain on Sale of property and equipment		**-**	(95)
-	4,948	Interest expense on subordinated loans	22	**-**	1,905
(101)	(34)	Gain on sale of investments		**(39)**	(13)
215,992	214,195	**Operating profit before operating assets and liabilities changes**		**83,156**	82,465
		Net increase/(decrease) in:			
(173,834)	286,992	Due to banks		**(66,926)**	110,492
(100,621)	80,855	Due from banks		**(38,739)**	31,129
(952,065)	(316,956)	Loans & advances and financing		**(366,545)**	(122,028)
(34,060)	441,387	Other assets		**(13,113)**	169,934
1,058,192	(242,600)	Customer deposits		**407,404**	(93,401)
21,156	(318,753)	Other liabilities		**8,145**	(122,720)
34,760	145,120	**Cash generated from operations before tax and end of service benefits**		**13,382**	55,871
(8,156)	(11,758)	Taxes paid	24	**(3,140)**	(4,527)
(327)	(3,922)	End of service benefits paid	14(a)	**(126)**	(1,510)
26,277	129,440	**Net cash generated from operating activities**		**10,116**	49,834
		CASH FLOWS FROM INVESTING ACTIVITIES			
(21,551)	(18,275)	Purchase of property and equipment and intangible assets		**(8,297)**	(7,036)
1,732	688	Dividends received from investment securities		**(667)**	265
(172,925)	(211,774)	Purchase of investments		**(66,576)**	(81,533)

Statement of Cash Flows

For the year ended 31 December 2023

2023 USD'000	2022 USD'000		Note	2023 RO'000	2022 RO'000
206,766	176,488	Proceeds from sale/maturities of investments		**79,605**	67,948
-	**3,868**	Proceeds from sale of property and equipment		**-**	1,489
14,022	(49,005)	**Net cash generated (used in)/ generated from investing activities**		**5,399**	(18,867)
		CASH FLOWS FROM FINANCING ACTIVITIES			
-	(90,909)	Repayment of subordinated loans		**-**	(35,000)
(38,917)	(15,566)	Dividend paid		**(14,983)**	(5,993)
103,896	300,000	Issuance of AT 1 securities (RO)		**40,000**	115,500
(103,896)	(300,000)	Payment of AT 1 securities (USD)		**(40,000)**	(115,500)
(28,044)	(24,353)	Interest on Tier 1 perpetual bond		**(10,797)**	(9,376)
(244)	(564)	AT 1 issuance cost		**(94)**	(217)
-	(4,948)	Interest expense on subordinated loans		**-**	(1,905)
(67,205)	(44,867)	**Net cash (used in) financing activities**		**(25,874)**	(52,491)
(26,909)	(55,906)	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**(10,360)**	(21,524)
716,049	771,956	**Cash and cash equivalents at beginning of the year**		**275,679**	297,203
689,140	716,050	**Cash and cash equivalents at end of the year**		**265,319**	275,679
		Cash and cash equivalent comprise of:			
327,094	458,746	Cash and balances with Central Bank of Oman		**125,931**	176,617
(1,299)	(1,299)	Capital deposit with Central Bank of Oman		**(500)**	(500)
363,345	258,603	Due from banks with a short term maturity of 3 months or less		**139,888**	99,562
689,140	716,050			**265,319**	275,679

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

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

The notes on pages 134 to 243 are an integral part of these financial statements.

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

2. BASIS OF PREPARATION (continued)

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

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

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

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

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

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

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

3. MATERIAL ACCOUNTING POLICIES

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

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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.1 Foreign currency transactions

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

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

3.2 Financial assets and liabilities

3.2.1 Recognition and initial measurement

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

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

3.2.2 Classification

(a) Financial assets

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

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

Financial assets measured at amortised cost

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

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

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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification (continued)

Financial assets measured at fair value through other comprehensive income

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.
- 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;

3. MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification (continued)

(a) Financial assets (continued)

- **Business model assessment (continued)**

- 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.

Loans & advances and financing receivables

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

(b) Financial liabilities

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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.3 De-recognition

Financial assets

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

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

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

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in statement of comprehensive income.

3.2.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

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

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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.4 Modifications of financial assets and financial liabilities (continued)

Financial liabilities

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

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

3.2.5 Offsetting

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

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

3.2.6 Amortised cost measurement

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

3.2.7 Fair value measurement

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

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

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

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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.7 Fair value measurement (continued)

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

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

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

3.2.8 Designation at fair value through profit or loss

Financial assets

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

Financial liabilities

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

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

3.3 Allowance for expected credit losses

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

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

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

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

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

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to

3. MATERIAL ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

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 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.

3. MATERIAL ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

- 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.

(b) Restructured financial assets

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

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

3. MATERIAL ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

(c) Credit-impaired financial assets

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

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

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

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

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

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

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

(d) Forward-looking information

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

(e) Macroeconomic factors

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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

(f) Assessment of significant increase in credit risk

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

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

(g) Definition of default

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

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

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

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

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

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

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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.3 Allowance for expected credit losses (continued)

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

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

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

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

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

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

(i) Write-off

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

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

3.4 Cash and cash equivalents

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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.5 Due from banks

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

3.6 Property and equipment

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

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

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

	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. MATERIAL ACCOUNTING POLICIES (continued)

3.9 Deposits

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

3.10 Income tax

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

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

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

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

3.11 Fiduciary assets

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

3.12 Acceptances

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

3.13 Sale and repurchase agreements

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

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

3.14 Derivative financial instruments and hedging activities

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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.14 Allowance for expected credit losses (continued)

Bank designates certain derivatives as either:

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

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

In relation to cash flow hedges, the gain or loss on hedging instruments is recognised initially in other comprehensive income to the extent that the hedge is effective and is transferred to the statement of comprehensive income in the period in which the hedged transaction impacts the comprehensive income . If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to statement of comprehensive income.

The Bank does not have any derivatives designated as hedging instruments.

3.15 Leases

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

3.16 Employee benefits

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

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

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

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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.17 Financial guarantees contracts

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

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

3.18 Borrowings

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

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

3.19 Dividend on ordinary shares

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

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

3.20 Directors' remuneration

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

3.21 Revenue and expense recognition

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. MATERIAL ACCOUNTING POLICIES (continued)

3.21 Revenue and expense recognition (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.

1. Interest income and expense (continued)

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 at a point in time on satisfaction of performance obligation as per the terms of contract.

Trade services

The services cover issuance of letter of credit or guarantee, negotiations and other trade transactions.

Trade services fees are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.

3. MATERIAL 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 2022.

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

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

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

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

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

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

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

4.2 Taxes

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

Refer to note 24 for disclosures related to income taxes.

4. 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.

5. Cash and balances with the Central Bank of Oman

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

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

6. Loans, advances and financing to banks

At Amortised Cost

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Loans, advances and financing to customers (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 2023 RO'000

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

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

7. Loans, advances and financing to customers (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 2022 RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L 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	2,642,217	37,850	12,483	25,367	2,604,367	2,629,734	-	-
	Stage 2	417,967	5,166	32,121	(26,955)	412,801	385,846	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		3,060,184	43,016	44,604	(1,588)	3,017,168	3,015,580	-	-
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	10,117	66,108	(55,991)	1,070,609	1,014,618	-	-
	Stage 3	217,135	137,615	102,179	35,436	39,154	114,956	-	40,366
	Total	5,710,278	185,912	184,011	1,901	5,484,000	5,526,267	-	40,366

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

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 2023 RO'000

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

* Net of provision and reserve interest as per CBO norms

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

(d) Restructured Loans (continued)

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	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	128,096	1,288	3,248	(1,959)	126,808	124,848	-	-
	Stage 2	434,264	2,450	41,473	(39,022)	431,814	392,792	-	-
Subtotal		562,360	3,738	44,720	(40,982)	558,622	517,640	-	-
Classified as non-performing	Stage 3	7,431	3,451	3,476	(25)	2,723	3,955	-	1,257
Subtotal		7,431	3,451	3,476	(25)	2,723	3,955	-	1,257
Total (31 December 2022)	Stage 1	128,096	1,288	3,248	(1,959)	126,808	124,848	-	-
	Stage 2	434,264	2,450	41,473	(39,022)	431,814	392,792	-	-
	Stage 3	7,431	3,451	3,476	(25)	2,723	3,955	-	1,257
Total		569,791	7,189	48,196	(41,007)	561,345	521,595	-	1,257

* Net of provision and reserve interest as per CBO norms

(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 2023

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	**183,543**	**178,541**	**5,762**
Gross NPL ratio	**5.39%**	**5.39%**	**0.00%**
Net NPL ratio	**1.09%**	**2.02%**	**(0.93)%**

Gross NPL (Non-performing Loans) are 5.39% and Net NPL is 2.02% based on funded non-performing exposure over funded exposure.

Note 1: Excluding Interest Reserve of RO 33.76 million.

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 2022

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

Note 1: Excluding Interest Reserve of RO 40.37 million.

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

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

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

2. Special impairment reserve

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

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

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

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 2023

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

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

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

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

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

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

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

7. Loans, advances and financing to customers (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 2023:

RO'000

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

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

7. Loans, advances and financing to customers (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 2022:

RO'000

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Central Bank balances	137,376	-	-	137,376
Due from Banks	5,316	-	-	5,316
Sovereign	148,457	-	-	148,457
Investment Securities at amortized cost	398,445	-	-	398,445
Investment Securities at FVOCI	9,647	-	-	9,647
Loans and advances	46,702	-	-	46,702
Accrued Interest	2,657,029	775,544	214,079	3,646,652
Acceptances	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 / unutilised 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
Acceptances	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)

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

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

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

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

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

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

2023

Due from Bank	Stage 1	Stage 2	Stage 3	Total RO'000
ECL Movement				
Opening Balance – 1 January 2023	104	-	-	104
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movements during the year	340	-	-	340
Net Movement	340	-	-	340
Closing balance – 31 December 2023	444	-	-	444
Exposure Movement				
Opening Balance – 1 January 2023	148,457	-	-	148,457
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movements during the year	79,065	-	-	79,065
Net Movement	79,065	-	-	79,065
Closing balance – 31 December 2023	227,522	-	-	227,522

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 2023	12,711	62,163	100,927	175,801
Transfer between stages				
From Stage 1 to Stage 2	(6,295)	1,523	(4)	(4,776)
From Stage 2 to Stage 1	4,548	(4,548)	-	-
From Stage 1 and Stage 2 to Stage 3	(72)	(12,632)	17,480	4,776
Net Changes in Stage	(1,819)	(15,657)	17,476	-
Net Movement during the year	2,094	9,536	19,057	30,687
Net Movement	2,094	9,536	19,057	30,687
Write off			(38,741)	(38,741)
Closing balance – 31 December 2023	12,986	56,042	98,719	167,747
Exposure Movement				
Opening Balance – 1 January 2023	2,657,029	775,544	214,079	3,646,652
Transfer between stages				
From Stage 1 to Stage 2	(52,770)	52,782	(12)	-
From Stage 2 to Stage 1	36,358	(36,358)	-	-
From Stage 1 and Stage 2 to Stage 3	(4,249)	(6,273)	10,522	-
Net Changes in Stage	(20,661)	10,151	10,510	-
Net Movements during the year	279,906	53,813	(10,576)	323,143
Net Movement	279,906	53,813	(10,576)	323,143
Closing balance – 31 December 2023	2,916,274	839,508	214,013	3,969,795

7. Loans, advances and financing to customers (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 2023	64	-	-	64
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	(19)	-	-	(19)
Net Movement	(19)	-	-	(19)
Closing balance – 31 December 2023	45	-	-	45
Exposure Movement				
Opening Balance – 1 January 2023	56,349	-	-	56,349
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movements during the year	(26,886)	-	-	(26,886)
Net Movement	(26,886)	-	-	(26,886)
Closing balance – 31 December 2023	29,463	-	-	29,463

7. Loans, advances and financing to customers (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 2023	13	6	-	19
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	10	6	-	16
Net Movement	10	6	-	16
Closing balance – 31 December 2023	23	12	-	35
Exposure Movement				
Opening Balance – 1 January 2023	34,225	5,771	-	39,996
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movements during the year	17,859	1,255	-	19,114
Net Movement	17,859	1,255	-	19,114
Closing balance – 31 December 2023	52,084	7,026	-	59,110

7. Loans, advances and financing to customers (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 2023	1,670	3,266	1,252	6,188
Transfer between stages				
From Stage 1 to Stage 2	(38)	38	-	-
From Stage 2 to Stage 1	27	(27)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(11)	11	-	-
Net Movement during the year	(237)	1,083	189	1,035
Net Movement	(237)	1,083	189	1,035
Closing balance – 31 December 2023	1,422	4,360	1,441	7,223
Exposure Movement				
Opening Balance – 1 January 2023	559,104	100,588	3,056	662,748
Transfer between stages				
From Stage 1 to Stage 2	(27,488)	27,488	-	-
From Stage 2 to Stage 1	1,129	(1,129)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(26,359)	26,359	-	-
Net Movements during the year	29,514	(16,986)	226	12,754
Net Movement	29,514	(16,986)	226	12,754
Closing balance – 31 December 2023	562,259	109,961	3,282	675,502

7. Loans, advances and financing to customers (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 2023	1,162	673	-	1,835
Transfer between stages				
From Stage 1 to Stage 2	(66)	66	-	-
From Stage 2 to Stage 1	11	(11)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(55)	55	-	-
Net Movement during the year	341	110	-	451
Net Movement	341	110	-	451
Closing balance – 31 December 2023	1,448	838	-	2,286
Exposure Movement				
Opening Balance – 1 January 2023	416,116	198,823	-	614,939
Transfer between stages				
From Stage 1 to Stage 2	(30,933)	30,933	-	-
From Stage 2 to Stage 1	4,351	(4,351)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(26,582)	26,582	-	-
Net Movements during the year	175,189	(68,390)	-	106,799
Net Movement	175,189	(68,390)	-	106,799
Closing balance – 31 December 2023	564,723	157,015	-	721,738

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

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

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

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 Movement 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 2 to Stage 1	1,588	(1,246)	-	342
From Stage 1 to Stage 2	(161)	161	-	-
From Stage 1 and Stage 2 to Stage 3	(1)	(20,502)	20,161	(342)
Net Changes in Stage	1,426	(21,587)	20,161	-
Net Movement during the year	(8,861)	48,607	(903)	38,843
Net Movement	(8,861)	48,607	(903)	38,843
Write off	-	-	(866)	(866)
Closing balance – 31 December 2022	12,711	62,163	100,927	175,801
Exposure Movement				
Opening Balance – 1 January 2022	2,608,026	726,143	179,653	3,513,822
Transfer between stages				
From Stage 2 to Stage 1	20,471	(20,471)	-	-
From Stage 1 to Stage 2	(29,876)	29,876	-	-
From Stage 1 and Stage 2 to Stage 3	(231)	(868)	1,099	-
Net Changes in Stage	(9,636)	8,537	1,099	-
Net 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/Guarantees	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	(13)	13	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(13)	13	-	-
Net Movement during the year	(1,851)	(801)	1,252	(1,400)
Net Movement	(1,851)	(801)	1,252	(1,400)
Closing balance – 31 December 2022	1,670	3,266	1,252	6,188
Exposure Movement				
Opening Balance – 1 January 2022	463,445	98,632	7,148	569,225
Transfer between stages				
From Stage 1 to Stage 2	(506)	506	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(506)	506	-	-
Net 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	-	-	-	-
From Stage 2 to Stage 1	30	(30)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	30	(30)	-	-
Net Movement during the year	(537)	(438)	-	(975)
Net Movement	(537)	(438)	-	(975)
Closing balance – 31 December 2022	1,162	672	-	1,834
Exposure Movement				
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
Exposure 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	-	-	5,316
Net Movement	5,316	-	-	5,316
Closing balance – 31 December 2022	5,316	-	-	5,316

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)

(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 2023	Notes	Designated as at FVTPL	FVOCI - equity instruments	FVOCI - debt instruments	Amortised cost	Total carrying amount
Cash and balances with CBO	5	-	-	-	125,931	125,931
Loans and advances to banks	6	-	-	-	227,078	227,078
Loans and advances to customers	7	-	-	-	3,765,584	3,765,584
Investment securities	8	755	45,162	123,401	290,159	459,477
Other assets	11	3,623	-	-	73,054	76,677
		4,378	45,162	123,401	4,481,806	4,654,747
Due to banks	12	-	-	-	505,916	505,916
Deposits from customers	13	-	-	-	3,299,223	3,299,223
Other liabilities	14	3,386	-	-	128,809	132,195
		3,386	-	-	3,933,948	3,937,334

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

RO'000

31 December 2022	Notes	Designated as at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
Cash and balances with CBO	5	-	-	-	176,617	176,617
Loans and advances to banks	6	-	-	-	148,353	148,353
Loans and advances to customers	7	-	-	-	3,430,486	3,430,486
Investment securities	8	717	13,963	141,464	313,278	469,422
Other assets	11	4,730	-	-	60,789	65,519
		5,447	13,963	141,464	4,129,523	4,290,397
Due to banks	11	-	-	-	572,842	572,842
Deposits from customers	12	-	-	-	2,891,819	2,891,819
Other liabilities	14	3,970	-	-	117,992	121,962
		3,970	-	-	3,582,653	3,586,623

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

8. Investment securities

	2023 RO'000	2022 RO'000
Equity investments:		
Measured at FVTPL	**755**	717
Measured at FVOCI	**45,162**	13,975
Gross equity investments	**45,917**	14,692
Debt investments:		
Designated at FVTPL	**-**	-
Measured at FVOCI	**123,446**	141,516
Measured at amortized cost	**290,159**	313,278
Gross debt investments	**413,605**	454,794
Total investment securities	**459,522**	469,486
Less: Impairment loss allowance	**(45)**	(64)
Total investment securities	**459,477**	469,422
Investment securities measured as at FVTPL	**755**	717
Investment securities measured at FVOCI	**168,563**	155,427
Debt investments measured at amortised cost	**290,159**	313,278
	459,477	469,422

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

8. Investment securities (continued)

8. 1 Categories of investments by measurement

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

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

The movements in investment securities are summarised as follows:

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

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

8. Investment securities (continued)

8. 1 Categories of investments by measurement (continued)

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

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

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

9. Intangible asset

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

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

10. Property and equipment

31 December 2023	Freehold land 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 2023	**140**	**1,463**	**19,545**	**995**	**18,683**	**11**	**3,008**	**43,845**
Additions	**-**	**-**	**1,816**	**3**	**3,229**	**68**	**426**	**5,542**
Disposals	**-**	**-**	**(831)**	**-**	**-**	**-**	**-**	**(831)**
31 December 2023	**140**	**1,463**	**20,530**	**998**	**21,912**	**79**	**3,434**	**48,556**
Depreciation								
1 January 2023	**-**	**1,463**	**16,856**	**949**	**15,432**	**-**	**2,567**	**37,267**
Charge for the year	**-**	**-**	**1,381**	**27**	**1,830**	**-**	**282**	**3,520**
Disposals	**-**	**-**	**(831)**	**-**	**-**	**-**	**-**	**(831)**
31 December 2023	**-**	**1,463**	**17,406**	**976**	**17,262**	**-**	**2,849**	**39,956**
Carrying value 31 December 2023	**140**	**-**	**3,124**	**22**	**4,650**	**79**	**585**	**8,600**

10. Property and equipment (continued)

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

11. Other assets

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

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

12. Due to banks

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

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

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

13. Deposits from customers – Conventional Banking

Conventional Banking

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

Islamic Banking

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

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

14. Other liabilities

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

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

14(a) Employee benefit obligations

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

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

15. Share capital

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

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

15. Share capital (continued)

Shareholders:

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

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

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

16. Perpetual Tier 1 Capital Securities

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

16. Perpetual Tier 1 Capital Securities

Tier 1 RO Securities

(a) In October 2022, the Bank issued Perpetual Tier 1 RO Capital Securities (the "Tier 1 RO Securities"), amounting to RO 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.

16. Perpetual Tier 1 Capital Securities (continued)

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

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

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

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

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

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

17. Share premium

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

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

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

(2) Subordinated loans reserve

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

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

(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:

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

(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.

19. Retained earnings

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

20. Net assets per share

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

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

21. Interest income / Income from Islamic financing and Investments

	2023 RO'000	2022 RO'000
Conventional Banking		
Loans and advances	**180,712**	158,049
Due from banks	**20,327**	6,808
Investments	**18,762**	19,950
Total	**219,801**	184,807
Islamic Banking		
Islamic financing receivables	**37,488**	31,729
Islamic due from banks	**61**	67
Investments	**4,263**	4,666
Total	**41,812**	36,462

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

	2023 RO'000	2022 RO'000
Conventional Banking		
Customers' deposits	**(86,358)**	(64,743)
Subordinated liabilities / mandatory convertible bonds	**-**	(1,905)
Bank borrowings	**(42,690)**	(17,498)
Total	**(129,048)**	(84,146)
Islamic Banking		
Customer Deposits	**(19,329)**	(13,794)
Islamic bank borrowings	**(2,415)**	(913)
Total	**(21,744)**	(14,707)

22. Interest expense / Unrestricted investment account holders' share of profit and profit expense (continued)

	2023 RO'000	2022 RO'000
(1) Other operating income		
Foreign exchange	**4,546**	2,435
Investment income 22 (b)	**1,751**	716
Miscellaneous income	**2,273**	2,693
	8,570	5,844
(2) Investment income by measurement category		
Dividend income	**667**	265
Income from perpetual securities	**1,045**	438
Gain on disposals of investments – FVTPL	**39**	13
	1,751	716

23. Staff and administrative costs

	2023 RO'000	2022 RO'000
(1) Staff costs		
Salaries and allowances	**(36,959)**	(36,440)
Other personnel costs	**(6,784)**	(5,028)
Social insurance contribution	**(2,438)**	(2,624)
Non-Omani employee's terminal benefit	**(351)**	(291)
	(46,532)	(44,383)
On 31 December 2023, the Bank had 1,689 employees (2022: 1,509 employees).		
(2) Administrative costs		
Occupancy costs	**(3,286)**	(3,098)
Operating and administration cost	**(8,784)**	(10,326)
Others	**(3,542)**	(4,818)
	(15,612)	(18,242)
Total staff and administrative cost	**(62,144)**	(62,625)

24. Income tax

(1) Income tax expense:

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

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

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

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

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

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

24. Income tax (continued)

(3) The deferred tax asset/liability has been recognised at the effective tax rate of 15% (2021 - 15%)

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

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

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

24. Income tax (continued)

(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 2020. The tax assessment of the Bank for the Tax Year 2021 to 2023 is yet to be taken up by the TA.

(5) Tax liability

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

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

25. Earnings per share (basic and diluted)

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

	2023 RO'000	2022 RO'000
Profit for the period (RO)	**38,758,150**	34,173,371
Less: Additional Tier 1 Coupon	**(10,796,750)**	(9,375,600)
Profit for the period attributable to equity holders of the Bank	**27,961,400**	24,797,771
Weighted average number of shares outstanding during the period	**2,996,351,436**	2,996,351,436
Earnings per share basic and diluted (RO)	**0.009**	0.008

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

26. Related parties' transactions

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

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

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

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

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

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

26. Related parties transactions (continued)

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

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

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

27. Single borrower and senior members

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

	2023 RO'000	2022 RO'000
(a) Single borrower		
Total direct exposure	**446,616**	462,627
Number of members	**2**	2
(b) Senior members		
Total exposure:		
Direct	**142,722**	124,974
Indirect	**11,898**	9,661
	154,620	134,635
Number of members	**41**	41

28. Contingent liabilities and commitments

(1) Credit related contingent items

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

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

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

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

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

(2) Capital and investment commitments

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

(3) Legal proceedings

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

29. Disaggregation of net fees and commission income

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

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

30. Derivative financial instruments

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

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

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

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

31 December 2023						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	-	3,300	52,301	-	-	52,301
IRS customer	3,300	-	52,301	-	-	52,301
Forward purchase contracts	-	86	678,144	323,563	205,314	149,267
Forward sales contracts	323	-	677,915	323,976	205,370	148,569
Total	3,623	3,386	1,460,661	647,539	410,684	402,438

30. Derivative financial instruments (continued)

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

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

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

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

31. Fair value information

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

Fair value measurements recognised in the statement of financial position

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

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

31. Fair value information (continued)

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

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

The impact of change in estimates used in measurement of fair value of level 3 securities is not material to the

31. Fair value information (continued)

financial statements. The following table demonstrates the movement of the Bank's level 3 investments:

Level 3 movement – 31 December 2023

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

Level 3 movement – 31 December 2022

	FVTPL RO'000	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

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.

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

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

32. Financial risk management (continued)

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

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

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

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

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

Sensitivity of ECL to future economic conditions

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

2023	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	**150,128**	**17,619**	**45**	**9,989**	**177,781**
100% Base case scenario	**148,651**	**17,345**	**41**	**811**	**166,848**
100% Downside scenario	**166,612**	**20,305**	**76**	**1,479**	**188,472**

32. Financial risk management (continued)

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

The above table reveals that in case of 100% downside scenario, the ECL may increase by RO 10.62 million (2022: 14.516 million) from the current position.

Accounting for modification loss

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

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

Classification/Stage As per IFRS-9	Restructured (RO 000's)	ECL (RO 000's)
Stage 1	92,368	1,585
Stage 2	377,564	42,405
Stage 3	19,003	7,700
Total	**488,935**	**51,690**

The restructured accounts under process, pertaining to those who availed deferment as at 31st December 2022,

Impact on the Capital Adequacy

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

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

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

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

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

32. Financial risk management (continued)

A. Credit Risk (continued)

2. Customer concentrations

	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 2023						
Personal	**-**	**1,458,267**	**-**	**940,676**	**-**	**-**
Corporate	**227,522**	**1,868,493**	**84,516**	**962,803**	**505,916**	**675,257**
Government	**-**	**643,035**	**375,006**	**1,395,744**	**-**	**245**
	227,522	**3,969,795**	**459,522**	**3,299,223**	**505,916**	**675,502**
31 December 2022						
Personal	-	1,272,216	-	736,352	-	-
Corporate	148,457	1,757,432	61,394	1,054,981	572,842	662,446
Government	-	617,004	408,092	1,100,486	-	302
	148,457	3,646,652	469,486	2,891,819	572,842	662,748

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

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 2023				
Personal	**1,458,267**	**940,676**	**-**	**265,185**
International trade	**169,097**	**47,680**	**29,564**	**30,747**
Construction	**565,681**	**72,177**	**172,285**	**102,585**
Manufacturing	**228,524**	**126,880**	**37,842**	**41,553**
Wholesale and retail trade	**129,314**	**23,269**	**16,930**	**23,421**
Communication and utilities	**200,777**	**40,410**	**15,382**	**36,507**
Financial services	**246,702**	**40,044**	**266,326**	**44,858**
Government	**15,209**	**1,097,240**	**53,570**	**2,765**
Other services	**447,400**	**154,400**	**39,551**	**81,351**
Others	**508,824**	**756,447**	**44,052**	**92,766**
	3,969,795	**3,299,223**	**675,502**	**721,738**
31 December 2022				
Personal	1,272,216	736,352	-	-
International trade	135,825	46,275	32,045	34,457
Construction	457,910	73,650	210,681	87,466
Manufacturing	224,979	155,132	38,589	67,495
Wholesale and retail trade	109,618	11,155	26,107	31,152
Communication and utilities	107,674	83,677	8,715	35,693
Financial services	220,544	100,287	235,323	68,044
Government	134,755	740,172	-	44,699
Other services	553,838	138,128	45,341	159,382
Others	429,293	806,991	65,947	86,551
	3,646,652	2,891,819	662,748	614,939

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

4. Gross credit exposure

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

5. Geographical distribution of funded exposures:

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

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 RO'000
31 December 2023							
Import trade	18,220	124,924	1,369	17,887	162,400	26,811	29,529
Export trade	1,944	4,604	-	146	6,697	2,753	1,218
Wholesale/ retail trade	6,954	115,830	-	6,530	129,314	16,930	23,421
Mining and quarrying	2,035	168,759	-	16	170,810	22,195	31,058
Construction	45,183	458,324	22,691	39,483	565,681	172,285	102,858
Manufacturing	19,176	165,403	6,608	29,345	220,532	37,842	41,553
Electricity, gas and water	1,003	197,806	1,475	493	200,777	15,382	36,507
Transport and Communication	8,315	176,493	96	460	185,364	1,846	33,705
Financial institutions	4,040	215,150	27,814	-	247,004	266,326	44,858
Services	20,535	410,780	3,116	12,969	447,400	39,551	81,351
Personal loans	3,640	1,442,947	-	11,834	1,458,421	11,040	265,185
Agriculture and allied Activities	3,657	24,316	-	0	27,973	961	3,907
Government	-	526	-	14,683	15,209	53,570	2,765
Non-resident lending	-	242	306	-	548	-	100
Others	4,348	125,992	1,325	-	131,665	8,010	23,723
	139,050	3,632,099	64,800	133,846	3,969,795	675,502	721,738

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

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:

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

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

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

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

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

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)

1. Significant increase in credit risk (SICR) (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 2023

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

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

31 December 2022

Real GDP growth (%)	Present	12.70%	**Real GDP growth (%)**	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%

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

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)**	**78**	-
Sensitivity:		
ECL if only Upside case happens - 100% probability	**61**	(17)
ECL if only Base case happens - 100% probability	**76**	(2)
ECL if only Downside case happens - 100% probability	**101**	23

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

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

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

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 2023						
Wholesale banking	**636**	**148,458**	**20,800**	**127,658**	**61,072**	**47.84%**
Retail banking	**3,088**	**65,555**	**12,958**	**52,597**	**39,089**	**74.32%**
Total	**3,724**	**214,013**	**33,758**	**180,255**	**100,161**	**55.57%**
31 December 2022						
Wholesale banking	786	150,874	26,450	124,424	65,564	52.69%
Retail banking	3,420	63,205	13,916	49,289	36,615	74.29%
Total	4,206	214,079	40,366	173,713	102,179	58.82%

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

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 2023 and changes in gross exposure balances from 1 January 2022 to 31 December 2023 is set out in the following tables by class of financial assets

31 December 2023:

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

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

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

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

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

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
Debt investment securities at Amortised cost				
High Grade	290,159	-	-	290,159
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	**290,159**	**-**	**-**	**290,159**

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

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

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

* includes Corporate & SME , Retail and Banks

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

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
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

	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

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
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

	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

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

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

32. Financial risk management (continued)

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 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

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

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:

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

A. Credit Exposure (continued)

12. Distribution of impaired loans (continued)

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

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

B. Liquidity risk

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (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 2023						
Cash and balances with Central Bank of Oman	125,431	-	-	-	500	125,931
Loans and advances to customers*	380,783	370,019	211,973	658,872	2,143,937	3,765,584
Loans and advances to banks	121,133	50,120	55,825	-	-	227,078
Investments securities	8,285	56,588	23,767	299,022	71,815	459,477
Other assets	44,542	-	-	-	32,100	76,642
Total Assets Funded	**680,174**	**476,727**	**291,565**	**957,894**	**2,248,352**	**4,654,712**
Spot and Forward Purchases (notional value)	175,088	269,016	84,773	149,267	-	678,144
Total Assets Funded and Non Funded	**855,262**	**745,743**	**376,338**	**1,107,161**	**2,248,352**	**5,332,856**
Future Interest cash inflows	14,424	75,617	62,693	378,076	319,333	850,143
Due to banks	172,061	83,605	19,250	231,000	-	505,916
Deposits from customers*	279,029	687,742	579,395	965,510	787,547	3,299,223
Other liabilities	55,929	20,660	7,321	10,215	53,579	147,704
Total liabilities	**507,019**	**792,007**	**605,966**	**1,206,725**	**841,126**	**3,952,843**
Spot and Forward Purchases (notional value)	176,235	268,421	84,690	148,569	-	677,915
Loan commitments	336,891	384,847	-	-	-	721,738
Letter of credit	35,093	52,637	-	-	-	87,730
Guarantees and performance bonds	235,112	352,660	-	-	-	587,772
Total Liabilities Funded and Non Funded	**2,074,290**	**1,083,329**	**693,209**	**1,336,044**	**841,126**	**6,027,998**
Future Interest cash outflows	9,159	50,255	56,229	147,923	243,238	506,804
Cumulative Liabilities	2,074,290	3,157,619	3,850,828	5,186,872	6,027,998	-
Gap	(1,219,028)	(337,586)	(316,871)	(228,883)	1,407,226	-
Cumulative Gap	(1,219,028)	(1,556,614)	(1,873,485)	(2,102,368)	(695,142)	-

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

32. Financial risk management (continued)

1. Credit Risk (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
Loans and advances to cus-tomers	494,354	358,065	200,019	599,097	2,114,049	3,765,584
Deposits from customers	1,614,132	413,447	391,236	685,498	194,910	3,299,223

	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
Loans and advances to customers	156,232	424,390	144,228	718,245	1,987,391	3,430,486
Loans and advances to banks	108,166	40,187				148,353
Investments FVTPL	-	717	-	-	-	717
Investments FVOCI Debt Instrument	-	22,134	15,926	71,592	31,812	141,464
Investments FVOCI-Equity	-	-	-	-	13,963	13,963
Investments at amortized cost	3,867	36,014	10,014	186,798	76,585	313,278
Other assets	5,316	-	3,484	-	56,701	65,501
Total Assets Funded	**449,698**	**523,442**	**173,652**	**976,635**	**2,166,952**	**4,290,379**
Spot and Forward Purchases (notional value)	165,706	403,838	82,416	152,199	-	804,160
Total Assets Funded and Non Funded	**615,404**	**927,280**	**256,068**	**1,128,834**	**2,166,952**	**5,094,539**
Future Interest cash inflows	17,188	87,546	81,355	472,981	384,821	1,043,891
Due to banks	167,435	116,658	19,250	269,499	-	572,842
Deposits from customers	330,130	618,975	471,905	907,207	563,602	2,891,819
Other liabilities	67,636	524	524	5,247	61,663	135,594
Subordinated loans	-	-	-	-	-	-
Total liabilities	**565,201**	**736,157**	**491,679**	**1,181,953**	**625,265**	**3,600,255**

32. Financial risk management (continued)

1. Credit Risk (continued)

B. Liquidity risk (continued)

Spot and Forward Purchases (notional value)	177,087	393,567	80,320	152,224	-	803,198
Loan commitments	614,939	-	-	-	-	614,939
Letter of credit	88,961	-	-	-	-	88,961
Guarantees and performance bonds	573,787	-	-	-	-	573,787
Total Liabilities Funded and Non Funded	**2,019,975**	**1,129,724**	**571,999**	**1,334,177**	**625,265**	**5,681,140**
Future Interest cash outflows	4,119	49,829	38,888	114,248	96,118	303,202
Cumulative Liabilities	2,019,975	3,149,699	3,721,698	5,055,875	5,681,140	
Gap	(1,404,571)	(202,444)	(315,931)	(357,542)	1,541,687	
Cumulative Gap	(1,404,571)	(1,607,014)	(1,922,945)	(2,280,487)	(738,800)	

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

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

C. Market risk

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

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.

32. Financial risk management (continued)

C. Market risk (continued)

1. Currency risk (continued)

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

Foreign currency exposures

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

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:

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

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

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

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

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

32. Financial risk management (continued)

C. Market risk (continued)

2. Interest rate risk (continued)

Effect of IBOR reform

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

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

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

32. Financial risk management (continued)

C. Market risk (continued)

2. Interest rate risk (continued)

Interest rate sensitivity gap (continued)

	Due on demand and up to 30 days RO'000	Due with-in 1 to 6 months	Due within 7 to 12 months	Due with-in 1 to 5 years	Due after 5 years	Non-interest bearing	Total
Deposits from customers	1,195,087	494,152	436,356	750,771	254	422,603	3,299,223

	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 securities	**5.20%**	**3,867**	**58,096**	**25,940**	**258,390**	**108,437**	**14,692**	**469,422**
Loans, advances and financing to banks	**2.39%**	**58,050**	**40,187**	**-**	**-**	**-**	**50,116**	**148,353**
Loans, advances and financing to customers	**5.87%**	**156,232**	**424,390**	**144,228**	**718,245**	**1,987,391**	**-**	**3,430,486**
Other assets	**-**	**-**	**-**	**3,484**	**-**	**58,381**	**3,636**	**65,501**
Total assets		**218,149**	**522,673**	**173,652**	**976,635**	**2,154,209**	**245,061**	**4,290,379**
Due to banks	**5.52%**	**260,307**	**312,352**	**-**	**-**	**-**	**183**	**572,842**
Deposits from customers	**2.75%**	**218,123**	**423,839**	**725,955**	**670,842**	**518,130**	**334,930**	**2,891,819**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**135,594**	**135,594**
Subordinated loan	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities		**478,430**	**736,191**	**725,955**	**670,842**	**518,130**	**470,707**	**3,600,255**
On-balance sheet gap		**(260,281)**	**(213,518)**	**(552,303)**	**305,793**	**1,636,079**	**(225,646)**	
Cumulative interest sensitivity gap		**(260,281)**	**(473,799)**	**(1,026,102)**	**(720,309)**	**915,770**	**690,124**	

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

32. Financial risk management (continued)

C. Market risk (continued)

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 1.106 million (2022: decrease by RO 0.338 million).

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

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

D. Operational risk

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

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

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

Business Continuity Planning (BCP)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. Bank has adopted Business Continuity / Disaster Recovery Plan

32. Financial risk management (continued)

D. Operational risk (continued)

Business Continuity Planning (BCP) (continued)

with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah entity. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/ Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

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

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

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

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.

32. Financial risk management (continued)

D. Operational risk (continued)

Internal Capital Adequacy Assessment Process (ICAAP):

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

As a part of capital planning process, ICAAP provides a detailed assessment of its current capital adequacy, and also project future capital requirement to meet the regulatory capital adequacy ratios in line with approved business plans. The process covers a forward looking plan for the next 4 years. The overall framework has

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

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

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

33. Capital risk management

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

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

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 2023 is 17.48% (2022: 18.90%).

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

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

33. Capital risk management (continued)

Capital adequacy (continued)

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

34. Segmental information

The Bank is organised into four main business segments

1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;

2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products;

3) Treasury and investments;

4) Islamic Banking

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

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

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

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

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

34. Segmental information (continued)

	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Islamic Banking	Intersegment	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: Allowance for expected credit losses	(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: Allowance for expected credit losses	1	6,925	720	377		8,023
Total segment Liabilities	611,220	1,834,629	651,822	649,329	(146,745)	3,600,255

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

35. Dividends – proposed and declared

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

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

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

36. Leases

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

1. Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

36. Leases (continued)

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

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

2. Amounts recognised in the statement of comprehensive income

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

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

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

3. The following table shows the maturity analysis of lease liabilities:

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

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

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

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

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

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

4. The Bank's leasing activities and how these are accounted for (continued)

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

36. Leases (continued)

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

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

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

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

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

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 BANK DHOFAR SAOG ANNUAL REPORT 2023

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ANNUAL REPORT OF **SHARI'A SUPERVISORY BOARD**

31 DECEMBER 2023

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.

In compliance with the letter of appointment, we would like to submit the following report for the year ended 31/12/2023.

During the year, the Shariah Supervisory Board (SSB) of Maisarah Islamic Banking Services held four meetings to review various products, Sukuks, policies & procedures and Shariah issues, referred to us. During 2023, SSB has issued five Fatwas related to various Sukuks and products.

We have reviewed the activities and the operations relating to the policies, contracts, products, transactions and applications introduced by Maisarah Islamic Banking Services (MIBS) during the year ended on 31/12/2023. 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 2023 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) During the year, Maisarah took various initiatives to digitalize various products and steps such as opening accounts through application and purchasing shares and different initiatives, which undoubtedly made it easier for customers to proceed their transactions. However, we recommend MIBS to focus more on digitalization of transactions such as offering financing through various electronic channels.

b) Organizing Public awareness programs and seminars in the field of Islamic Banking in various parts of governorates in order to spread awareness to different segments of society.

c) More efforts to tap new segments particularly kids and SMEs.

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 30, 2024
Place: Muscat, Sultanate of Oman

SHARI'A SUPERVISORY **BOARD MEMBERS**

SHARI'A SUPERVISORY **BOARD MEMBERS**

Sheikh Abdullah bin Ali bin Aslam Al Shihri
Chairman

Sheikh Azzan bin Nasser bin Farfoor Al Amri
Deputy Chairman

Sheikh Dr. Abdul Rub bin Salim bin Abdul Rub Al Yafai
Member

Sheikh Hilal bin Hassan bin Ali Al Lawati
Member

Dr. Amin Fateh
Member

MANAGEMENT **TEAM**

Kamal Uddin Hassan Abdullah Al Maraza
GM & Chief Maisarah Islamic Banking Officer

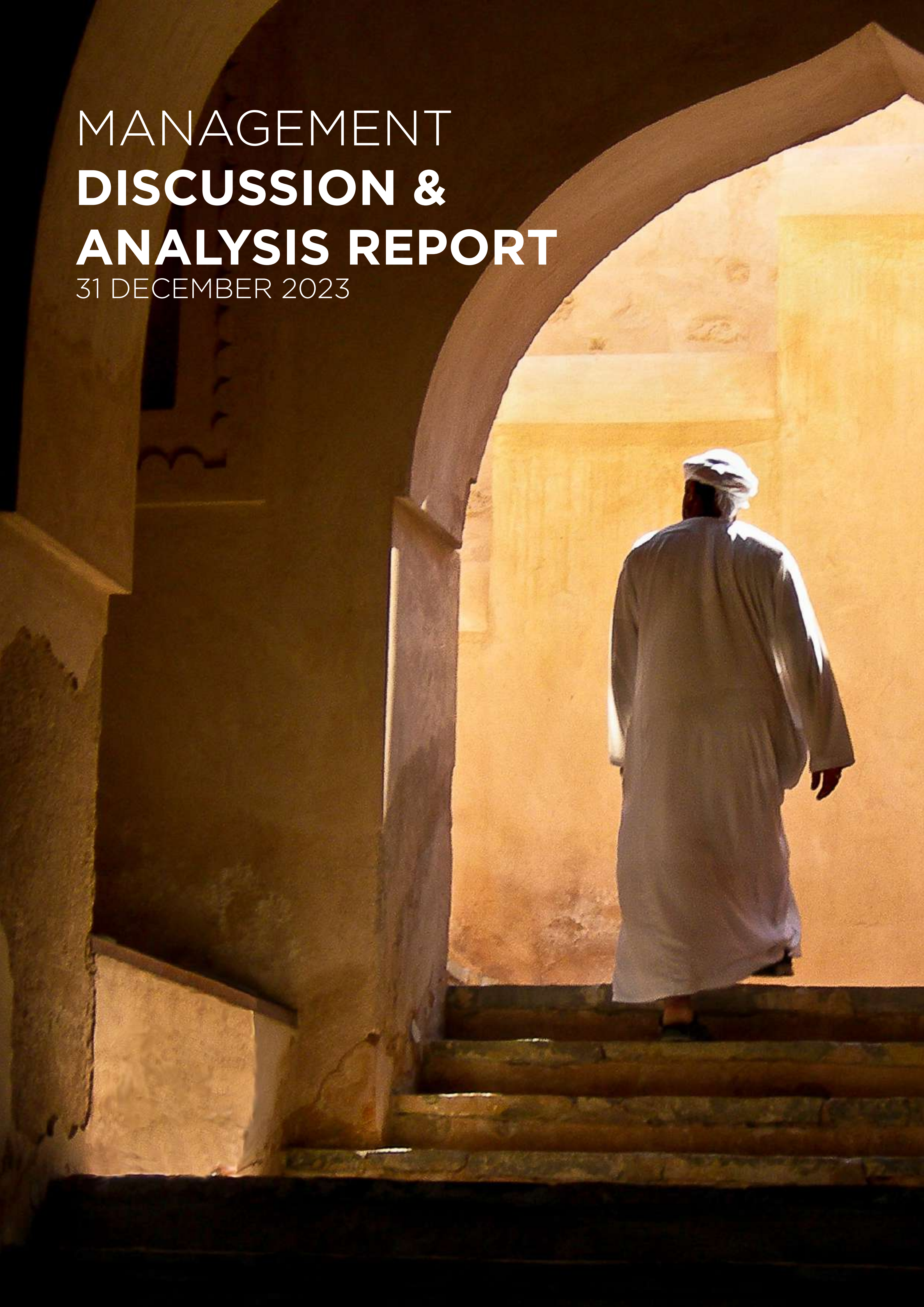
Amor Said Mohammed Al Amri
DGM Retail Banking

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 2023

Maisarah Islamic Banking Services

During 2023, Maisarah kept working on a number of projects, such as public awareness campaigns, to raise awareness of Islamic banking in general as well as the company's financial solutions, services, and goals. This was done in an effort to increase Maisarah's customer base and provide a forum for both current and prospective clients to learn about and take advantage of Islamic banking options.

The 8th edition of the IFN Oman Forum featured a number of essential topics like Oman Vision 2040 and the Islamic economy, green transition and sustainability-linked finance, Sukuk, and more. Maisarah participated in and sponsored these events as part of its ongoing support for various programs that aim to contribute to the growth and development of the Islamic finance industry in Oman.

Maisarah improved its digital banking channels and launched a number of innovative self-services that were open to users throughout. This allowed users to conduct transactions via internet and mobile banking at any time of day, as well as to use the wider network of ATMs and CDMs across the country for cash-related services. These services were available to all Maisarah cards and were entirely free of charge.

A segmented retail approach was taken for the launch of Children and Minor accounts. The Children's Account is intended for infants to children under the age of thirteen. This account provides a safe environment for youngsters to learn important money management skills and build their financial confidence. With features like "flexible recurring deposit," "no minimum balance," and "monthly financial assistance through the social protection program," the account acts as a useful and practical starting point for future savings.

The Minor Savings Account targets young consumers between the ages of 13 and 18 and places a strong emphasis on long-term financial success and financial awareness. With a variety of features including a customizable debit card and adjustable recurring deposit, this account helps kids form healthy financial habits. In addition to making deposits and withdrawals easier, the Account shows how the bank supports the development of financially secure people by offering advice, savings opportunities, and parental participation.

By letting kids set savings objectives and watch their money increase, the Bank hopes to make learning fun for kids. This program supports the bank's objective to invest in Oman's future by raising financial literacy.

Understanding how crucial it is to provide clients with outstanding value, we improved our reward platform by turning regular expenses into thrilling chances for adventures, travel, shopping, and more. The purpose of the initiative is to assist credit card customers in turning their daily expenses into fulfilling experiences.

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

KPMG LLC
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P O Box 641, PC 112
Sultanate of Oman
Tel. +968 24 749600, www.kpmg.com/om

Private and confidential
Our ref.: aud/km/zu/14693/24

Agreed-Upon Procedures Report on Maisarah Islamic Banking Services (Islamic Window of Bank Dhofar SAOG) Basel II - Pillar III and Basel III Disclosures

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 Bank Dhofar SAOG ("the Bank") for evaluating the Maisarah Islamic Banking Services (Islamic Window of the Bank) compliance with the disclosure requirements set out in the Central Bank of Oman's ("the CBO") Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013 and may not be suitable for another purpose.

Responsibilities of the Bank

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

The Bank (also the Responsible Party) is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioners' Responsibilities

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

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Practitioners' Responsibilities (continued)

Professional Ethics and Quality Control

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

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

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Bank in the terms of engagement dated 1 May 2023, on the Islamic Window of the Bank's Basel II – Pillar III and Basel III Disclosures ("Disclosures"):

S. No	Procedures	Findings
1	We have performed the procedures prescribed in the CBO circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013 with respect to the Disclosures of the Islamic Window of the Bank as at and for the year ended 31 December 2023.	No exceptions found.

This report relates only to the items specified above and does not extend to the Bank's and Islamic Window of the Bank's financial statements taken as a whole.

KPMG

7 March 2024
KPMG LLC

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

Enclosures:
Maisarah Islamic Banking Services Basel II – Pillar III and Basel III Disclosures

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

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	37,005
Proposed Stock Dividend	-
Common Equity Tier I Capital (CET1)	**107,005**
Prudential valuation adjustments	(890)
Additional Tier I Capital (AT1)	-
Total Tier I Capital (TI=CET1+AT1)	**106,115**
Tier 2 Capital (T2): Instruments and provisions	
Subordinated Debt	-
45% of cumulative fair value gains of FVOCI instruments	734
Impairment provision (upto 1.25% of risk-weighted assets) *	4,056
Total Tier 2 Capital (T2)	**4,790**
TOTAL REGULATORY CAPITAL (TC=CET1+AT1+ T2)	**110,905**

* 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	79,741
Profit Equalization Reserve (PER) - Shareholders' Component	28
Profit Equalization Reserve (PER) - Investment Account Holders' Component)	27
Investment Risk Reserve (IRR)	14
Total	**79,810**

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 15.68% 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	612,150	67,337
Market Risk	12,916	1,421
Operational Risk	82,142	9,036
Total Risk Weighted Assets	**707,208**	**77,794**

* 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)	106,115
2	Tier II Capital (after supervisory deductions and up to eligible limits)	4,790
3	Of which, Total Eligible Tier III Capital	-
4	Risk weighted assets – banking book	612,150
5	Risk weighted assets – operational risk	82,142
6	Total risk weighted assets – Banking Book + Operational risk	**694,292**
7	Minimum required capital to support RWAs of banking book and operational risk	76,372
7 (1)	Minimum required Tier I capital for banking book and operational risk	71,582
7 (2)	Tier II capital required for banking book and operational risk	4,790
8	Tier I capital available for supporting trading book	34,533
9	Tier II capital available for supporting trading book	-
10	Risk weighted assets – trading book	12,916
11	Total capital required to support trading book	1,421
12	Minimum Tier I capital required for supporting trading book	405
13	Used Eligible Tier III Capital	-
14	**Total regulatory capital**	**110,905**
15	**Total risk weighted assets**	**707,208**
16	**BIS capital adequacy ratio**	**15.68%**

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	106,115
Total capital	110,905
Total RWA	707,208
Ratio of total capital to RWA	**15.68%**
Ratio of tier I capital to RWA	**15.00%**

4. Ratio of Total Capital to Total Assets

Details	RO 000 / %
Total capital	110,905
Total assets	816,156
Ratio of total capital to total assets	**13.59%**

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	27,643	3,041	-	-
Mudaraba Financings	21,684	2,385	-	-
Ijarah Assets	36,493	4,014	-	-
Diminishing Musharaka Financing	361,373	39,751	-	-
Wakala Financing	98,364	10,820	-	-
Total	**545,557**	**60,011**	**-**	**-**

3. CAPITAL ADEQUACY (continued)

3.2. QUANTITATIVE DISCLOSURE (continued)

6. Disclosure of Displaced Commercial Risk

Details	RO'000
Total profits available for distribution	**42,356**
Profit sharing	
- Shareholders	40,830
- IAH's	**1,526**
Mudarib fee charged by Maisarah	(746)
Profits for IAH's before smoothening	**780**
Amount adjustment for profit smoothening	(19)
Profits paid out to IAH after smoothening	**761**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH)

4.1.1. QUALITATIVE DISCLOSURE

1. 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	55
Unrestricted Investment Account Holders funds	79,741
PER to IAH ratio	**0.069%**

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)	14
Unrestricted Investment Account Holders funds	79,741
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)	9,404
Total assets	816,156
RoA	**1.152%**

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)	8,643
Total shareholder's equity	107,745
RoE	**8.022%**

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	668,585
Saving deposits	79,741
Financing to PSIA	**8.38**

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	2,886
- Diminishing Musharaka	48,131
- Ijarah Muntahia Bittamleek	6,394
- Wakala financing	10,039
- Mudaraba financing	766
- Investment in Sukuk	9,266
- Wakala placement	2,200
- Murabaha and Musawamah inventory	-
- Advances	59
Total Unrestricted IAH Funds (allocated based on proportion)	**79,741**

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	780	0.98%
Transfers To:		
PER	(15)	-0.02%
IRR	(4)	0.01%
Share of profit of IAHs after PER and IRR for the year	**761**	**0.95%**

3. Movement of PER and IRR

Details	PER RO 000	IRR RO 000
Balance as at 1 January 2023	40	10
Add: Amount apportioned from income allocated	15	4
Less: Amount utilized during the year	-	-
Balance as at 31 December 2023	**55**	**14**

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 2023	Dec 2022	Dec 2021	Dec 2020	Dec 2019
High Yield Saving (RO)	1.25%	2.34%	1.51%	1.21%	0.57%	0.60%
High Yield Saving (USD)	0.20%	0.19%	0.20%	0.22%	0.19%	-
Mudaraba Saving	0.61%	0.57%	0.61%	0.68%	0.59%	0.61%

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 investmentss.
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. i. 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	29,515	4.39%
Mudaraba Financings	7,511	1.12%
Ijarah Assets	62,670	9.32%
Diminishing Musharaka Financing	471,725	70.19%
Wakala Financing	100,670	14.98%
Total	**672,091**	**100.00%**

4. Financing by Counterparty Category

Details	RO 000	% of total financing
Corporate and SME	446,500	66.43%
Retail	225,591	33.57%
Total	**672,091**	**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 2023	Total Gross Credit RO 000	Average Gross Credit RO 000
Murabaha and other receivables	29,515	24,392
Mudaraba financing	7,511	8,071
Diminishing Musharaka financing	471,725	441,041
Wakala financing	100,670	84,787
Ijarah Muntahia Bittamleek	62,670	62,886
Total	**672,091**	**621,177**

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**

Credit Card receivables and Profit share on Wakala Finance 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 2023 is as below:

Shareholders 88.14%

IAH 11.86%

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	29,515	7,511	471,725	100,670	62,670	**672,091**
Other GCC Countries	-	-	-	-	-	**-**
Europe and North America	-	-	-	-	-	**-**
Africa and Asia	-	-	-	-	-	**-**
Total	**29,515**	**7,511**	**471,725**	**100,670**	**62,670**	**672,091**

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	9,186	7,511	308,698	100,670	20,435	**446,500**
Retail	20,329	-	163,027	-	42,235	**225,591**
Total	**29,515**	**7,511**	**471,725**	**100,670**	**62,670**	**672,091**

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	20,329	-	163,027	-	42,235	**225,591**
Construction	961	3,979	197,834	17,680	16,877	**237,331**
Manufacturing	3,301	157	8,753	8,456	-	**20,667**
Services	1,221	341	63,524	4,315	-	**69,401**
Others	3,703	3,034	38,587	70,219	3,558	**119,101**
Total	**29,515**	**7,511**	**471,725**	**100,670**	**62,670**	**672,091**

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	4,745	7,511	51,041	20,011	-	**83,308**
1 – 3 months	3,480	-	600	32,687	-	**36,767**
3 – 6 months	692	-	283	20,081	-	**21,056**
6 – 9 months	69	-	434	7,723	21	**8,247**
9 – 12 months	44	-	318	-	5	**367**
1 – 3 years	2,156	-	13,981	-	329	**16,466**
3 – 5 years	4,022	-	19,751	1,124	752	**25,649**
Over 5 years	14,307	-	385,317	19,044	61,563	**480,231**
Total	**29,515**	**7,511**	**471,725**	**100,670**	**62,670**	**672,091**

6. Total Gross Credit Exposure – Rating Category

Ratings	2023 RO'000	2022 RO'000
Rating grade 1 – 3	63,667	71,869
Rating grade 4 – 5	466,507	323,566
Rating grade 6 – 8	122,040	153,105
Non – performing financing	19,877	6,941
Total Financing	**672,091**	**555,481**

7. Total Gross Credit Exposure – Equity Based Financing

Equity based financing	31 December 2023		31 December 2022	
	Total Gross Credit RO '000	Average Gross Credit RO '000	Total Gross Credit RO '000	Average Gross Credit RO '000
Mudaraba financing	**7,511**	**8,071**	9,437	12,063
Wakala financing	**100,670**	**84,787**	76,229	76,701
Total	**108,181**	**92,858**	**85,666**	**88,764**

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	7,930	7,165	225,932	92,506	16,695	**350,228**
- Past due but not impaired	797	-	67,110	6,159	3,740	**77,806**
- Non-performing	459	346	15,656	2,005	-	**18,466**
- Total financing	**9,186**	**7,511**	**308,698**	**100,670**	**20,435**	**446,500**
- Stage 1 & 2 ECL	18	49	8,989	554	87	**9,697**
- Stage 3 ECL	167	157	5,236	745	-	**6,305**
- Total ECL	**185**	**206**	**14,225**	**1,299**	**87**	**16,002**
Retail						
- Neither past due nor impaired	19,570	-	156,194	-	40,297	**216,061**
- Past due but not impaired	530	-	5,902	-	1,687	**8,119**
- Non-performing	229	-	931	-	251	**1,411**
- Total financing	**20,329**	**-**	**163,027**	**-**	**42,235**	**225,591**
- Stage 1 & 2 ECL	69	-	560	-	247	**876**
- Stage 3 ECL	160	-	486	-	170	**816**
- Total ECL	**229**	**-**	**1,046**	**-**	**417**	**1,692**

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	19,570	-	156,194	-	40,297	**216,061**
- Past due but not impaired	530	-	5,902	-	1,687	**8,119**
- Non-performing	229	-	931	-	251	**1,411**
- Total financing	**20,329**	**-**	**163,027**	**-**	**42,235**	**225,591**
- Stage 1 & 2 ECL	69	-	560	-	247	**876**
- Stage 3 ECL	160	-	486	-	170	**816**
- Total ECL	**229**	**-**	**1,046**	**-**	**417**	**1,692**
Construction						
- Neither past due nor impaired	670	3,633	149,936	14,328	16,695	**185,262**
- Past due but not impaired	199	-	35,021	2,025	182	**37,427**
- Non-performing	92	346	12,877	1,327	-	**14,642**
- Total financing	**961**	**3,979**	**197,834**	**17,680**	**16,877**	**237,331**
- Stage 1 & 2 ECL	3	28	4,152	31	22	**4,236**
- Stage 3 ECL	43	157	4,015	472	-	**4,687**
- Total ECL	**46**	**185**	**8,167**	**503**	**22**	**8,923**
Manufacturing						
- Neither past due nor impaired	2,769	157	5,966	6,594	-	**15,486**
- Past due but not impaired	532	-	2,256	1,862	-	**4,650**
- Non-performing	-	-	531	-	-	**531**
- Total financing	**3,301**	**157**	**8,753**	**8,456**	**-**	**20,667**
- Stage 1 & 2 ECL	9	1	153	316	-	**479**
- Stage 3 ECL	-	-	216	-	-	**216**
- Total ECL	**9**	**1**	**369**	**316**	**-**	**695**
Services						
- Neither past due nor impaired	1,221	341	38,838	3,687	-	**44,087**
- Past due but not impaired	-	-	24,686	117	-	**24,803**
- Non-performing	-	-	-	511	-	**511**
- Total financing	**1,221**	**341**	**63,524**	**4,315**	**-**	**69,401**
- Stage 1 & 2 ECL	1	5	4,354	9	-	**4,369**
- Stage 3 ECL	-	-	-	225	-	**225**
- Total ECL	**1**	**5**	**4,354**	**234**	**-**	**4,594**

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	3,270	3,034	31,192	67,897	-	**105,393**
- Past due but not impaired	66	-	5,147	2,155	3,558	**10,926**
- Non-performing	367	-	2,248	167	-	**2,782**
- Total financing	**3,703**	**3,034**	**38,587**	**70,219**	**3,558**	**119,101**
- Stage 1 & 2 ECL	5	15	330	198	65	**613**
- Stage 3 ECL	124	-	1,005	48	-	**1,177**
- Total ECL	**129**	**15**	**1,335**	**246**	**65**	**1,790**

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	27,500	7,165	382,126	92,506	56,992	**566,289**
- Past due but not impaired	1,327	-	73,012	6,159	5,427	**85,925**
- Non-performing	688	346	16,587	2,005	251	**19,877**
- Total financing	**29,515**	**7,511**	**471,725**	**100,670**	**62,670**	**672,091**
- Stage 1 & 2 ECL	87	49	9,549	554	334	**10,573**
- Stage 3 ECL	327	157	5,722	745	170	**7,121**
- Total ECL	**414**	**206**	**15,271**	**1,299**	**504**	**17,694**

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 2023	2,039	10,061	3,816	15,916
Added / (Reversed) during the year	(124)	(1,089)	5,479	4,266
Written back during the year	-	-	(550)	(550)
Written off during the year	-	-	-	-
As at 31 December 2023	**1,915**	**8,972**	**8,745**	**19,632**

12. Penalties on Customers and Donation Payment

Details	RO'000
Undistributed charity funds as at 1 January 2023	7
Shari'a non-compliant income	10
Disposition of charity funds	(7)
Undistributed charity funds as at 31 December 2023	**10**

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	1,302	25	977
Mortgage – with last valuation date more than 1 year but less than 2 years	20,781	35	13,508
Mortgage – with last valuation date more than 3 years	2,074	100	-
Total	**24,157**	**-**	**14,485**

2. Assets Owned and Leased under Ijarah Muntahiyah Bittamleek

Carrying amount of assets under Ijarah Muntahia Bittamleek as of 31 December 2023 is RO 62,670 thousand.

6.4. LIQUIDITY RISK

6.4.1. QUALITATIVE DISCLOSURE

1. 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 managementt.

   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	16.16%
Liquid assets to short term liabilities	119.06%
Liquidity coverage ratio	366.45%
Net stable funding ratio	113.40%

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.4.2. QUANTITATIVE DISCLOSURE (continued)

2. Maturity Analysis / Maturity Profile

	2023					
	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
Cash and balances with Central Bank of Oman	28,725	-	-	-	-	**28,725**
Due from banks and financial institutions	23,346	-	-	-	-	**23,346**
Murabaha and other receivables	7,750	2,400	1,818	10,717	6,830	**29,515**
Mudaraba financing	357	717	803	3,583	2,051	**7,511**
Diminishing Musharaka financing	56,383	27,786	37,113	165,055	185,388	**471,725**
Investments	-	10,843	20,000	48,393	11,576	**90,812**
Wakala	76,860	4,119	3,008	14,174	2,509	**100,670**
Ijarah Muntahia Bittamleek	475	2,284	2,857	22,775	34,279	**62,670**
Property and equipment	-	-	-	-	1,319	**1,319**
Intangibles	-	-	-	-	800	**800**
Other asset	15,202	1,710	-	-	1,520	**18,432**
Allowance for ECL and profit suspended	(1,624)	-	(1,780)	-	(15,965)	**(19,369)**
Total assets	**207,474**	**49,859**	**63,819**	**264,697**	**230,307**	**816,156**
Current accounts	11,417	10,969	6,274	-	7,838	**36,498**
Qard Hasan from Head Office	3,309	-	15,000	10,000	-	**28,309**
Other liabilities	12,676	2,305	161	645	471	**16,258**
Wakala inter bank deposits	68,525	35,000	-	-	-	**103,525**
Wakala customer deposits	23,589	58,541	116,844	162,036	83,001	**444,011**
Equity of unrestricted investment accountholders	3,987	7,974	7,974	39,870	19,936	**79,741**
Owner's equity	-	-	-	-	107,814	**107,814**
Total liabilities and accountholders & owners' equity	**123,503**	**114,789**	**146,253**	**212,551**	**219,060**	**816,156**

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	12,916
Commodities position	-
Total	**12,916**

2. Foreign Exchange Net Open Positions to Capital

Details	Amount RO'000
Foreign exchange net open position	16,329
Total capital	110,905
Foreign exchange net open position to total capital	0.147
99.59% 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 and Shares	90,812
Net open position foreign currency	16,329

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%	
	2023 RO '000	2022 RO '000	2023 RO '000	2022 RO '000
Omani Rials	**515**	1,447	**1,029**	2,893
US Dollars	**158**	125	**317**	250
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 1,633 thousand.

6.6. OPERATIONAL RISK

6.6.1. QUALITATIVE DISCLOSURE

1. i. 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 52 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	82,142

2. Gross Income

Details	2023 RO'000	2022 RO'000	2021 RO'000	Average
Gross income	50,998	43,263	37,166	43,809

3. Amount of Shari'a Non-Compliant Income

Amount of Shari'a non-compliant income transferred to charity was RO 10 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 2023								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	28,725	**28,725**
Due from banks and financial institutions	**5.23%**	21,560	-	-	-	-	1,784	**23,344**
Murabaha and other receivables	**5.47%**	8,880	2,281	1,527	10,199	6,301	(87)	**29,101**
Mudaraba financing	**5.83%**	-	-	7,165	189	-	(49)	**7,305**
Diminishing Musharaka Financing	**6.35%**	57,137	33,925	34,821	163,661	176,459	(9,549)	**456,454**
Investments	**5.39%**	-	5,762	20,000	48,393	11,576	5,040	**90,771**
Wakala	**5.50%**	74,658	4,119	2,507	14,853	1,587	1,647	**99,371**
Ijara Muntahia Bittamleek	**5.61%**	474	2,285	2,794	22,806	34,141	(334)	**62,166**
Property and equipment	-	-	-	-	-	-	1,319	**1,319**
Intangibles	-	-	-	-	-	-	800	**800**
Other asset	-	-	-	-	-	-	16,800	**16,800**
Total assets		**162,709**	**48,372**	**68,814**	**260,101**	**230,064**	**46,096**	**816,156**
Current accounts	**0.00%**	-	-	-	-	-	36,498	**36,498**
Qard Hasan from Head office	-	-	-	-	-	-	28,309	**28,309**
Other liabilities	-	-	-	-	-	-	16,258	**16,258**
Wakala inter bank deposits	**5.30%**	68,525	35,000	-	-	-	-	**103,525**
Wakala customer deposits	**4.49%**	2,230	28,395	121,061	185,184	107,141	-	**444,011**
Equity of unrestricted investment accountholders	**1.14%**	79,741	-	-	-	-	69	**79,810**
Owner's equity	-	-	-	-	-	-	107,745	**107,745**
Equity of accountholders & Total liabilities and shareholders' equity	-	**150,496**	**63,395**	**121,061**	**185,184**	**107,141**	**188,879**	**816,156**
On-balance sheet gap	-	**12,213**	**(15,023)**	**(52,247)**	**74,917**	**122,923**	**(142,783)**	**-**
Cumulative profit sensitivity gap	-	**12,213**	**(2,810)**	**(55,057)**	**19,860**	**142,783**	**-**	**-**

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 RO 29,966 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 2023 RO'000	Dec 2022 RO'000	Dec 2021 RO'000	Dec 2021 RO'000	Dec 2019 RO'000
Total profits available for sharing	42,356	36,901	33,588	30,310	26,240
Profit available for IAH before smoothing	1,526	1,000	2,051	1,354	1,136
Profit paid to IAH after smoothing	761	499	1,622	1,065	898

Details	Position as at				
	Dec 2023 RO'000	Dec 2022 RO'000	Dec 2021 RO'000	Dec 2020 RO'000	Dec 2019 RO'000
PER	55	40	30	22	16
IRR	14	10	8	5	4

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 2023 RO'000	Dec 2022 RO'000	Dec 2021 RO'000	Dec 2020 RO'000	Dec 2019 RO'000
Investment Account Holders					
High Yield Saving (RO)	2.34%	1.51%	1.21%	0.57%	0.60%
High Yield Saving (USD)	0.19%	0.20%	0.22%	0.19%	-
Mudaraba Saving Account	0.57%	0.61%	0.68%	0.59%	0.61%
Equity	5.56%	5.92%	6.34%	5.86%	5.82%

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	1,526
- Mudarib fee charged by Maisarah	(746)
- PER	(15)
- IRR	(4)
Profit distributed to IAH	**761**

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	2,709	4.67%
- Diminishing Musharaka	36,872	63.52%
- Ijarah Muntahia Bittamleek	3,723	6.41%
- Wakala financing	10,036	17.29%
- Mudaraba financing	2,211	3.81%
- Investment in Sukuk	1,692	2.91%
- Wakala placement	746	1.29%
- Murabaha and Musawamah inventory	-	0.00%
- Advances to customers	59	0.10%
Total assets funded by IAH (allocated based on proportion)	**58,048**	**100.00%**

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	27,643
2	Mudaraba Financings	21,684
3	Ijarah Assets	36,493
4	Diminishing Musharaka Financing	361,373
5	Wakala Financing	98,364
	Total	**545,557**

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	2023 RO'000	2022 RO'000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**111**	149
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**19,806**	44,055
Other transactions		
Rental payment to a related party	**171**	245
Income from finance to related parties	**6**	8
Profit expense on deposits from related parties	**1,526**	761
Key management compensation		
Salaries and other benefits	**408**	568
End of service benefits	**-**	-

4. During the year several new product campaigns were introduced including consumer and commercial finance. Several reward offers were introduced for Credit Card consumers and special customer events including COMEX, customer road shows were conducted by the team. We even had social media influencers illustrate our Islamic mobile banking app to increase the awareness on services. Several newspapers press releases were done on products and services communicating our branch expansion as well.

5. Complaint management of Maisarah customers is handled at the parent entity level through the Complaint Management Department. The department has 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. During the year no social functions and charitable contributions such as Zakat, Qard, Sadaqah etc. were being made by Maisarah.

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 2023, the department has conducted 8 audits as compared to the target of 8. The Unit comes under the direct supervision of SSB. The SSB met 6 times (including 2 meeting with Board of Directors) in the year 2023.

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 10 thousand in respect of rebate received on nostro accounts and late payments from customers.

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	2023 RO'000	2022 RO'000
Chairman		
- Remuneration proposed	**9**	9
- Sitting fees paid	**3**	3
Other Members		
- Remuneration proposed	**28**	27
- Sitting fees paid	**9**	9

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		Amount Subject to Pre-Basel III treatment
		(RO '000)	
Common Equity Tier 1 Capital: Instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus [Note 1]	70,000	-
2	Retained Earnings	37,005	-
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**	107,005	-
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments	890	-
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)	-	-

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments			Amount Subject to Pre-Basel III treatment
		(RO '000)	
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**	890	-
29	**Common Equity Tier 1 capital (CET 1)**	106,115	-
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)**	106,115	-
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	4,790	-
51	**Tier 2 capital before regulatory adjustments**	4,790	-
Tier 2 capital: Regulatory Adjustments-			
52	Investments in own Tier 2 instruments	-	-

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)**	4,790	-
59	**Total Capital (TC = T 1 + T 2)**	110,905	-
	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)**	707,208	
60a	of which: Credit Risk Weighted Assets	612,150	
60b	of which: Market Risk Weighted Assets	12,916	
60c	of which: Operational Risk Weighted Assets	82,142	
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.00%	-
62	Tier 1 (as a percentage of risk weighted assets)	15.00%	-
63	Total capital (as a percentage of risk weighted assets)	15.68%	-
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		Amount Subject to Pre-Basel III treatment
		(RO '000)	
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)	4,790	-
77	Cap on inclusion of provisions in Tier 2 under standardized approach	7,652	-
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	-

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	107,005
2	Regulatory Adjustments to CET1	890
3	CET1	106,115
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%)	106,115
8	Tier 2 Capital before Regulatory Adjustments	4,790
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	4,790
11	Total Capital (11=7+10)	110,905
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	707,208
13	Credit Risk Weighted Assets	612,150
14	Market Risk Weighted Assets	12,916
15	Operational Risk Weighted Assets	82,142
16	CET1 (as a percentage of TRWA) (in %)	15.00
17	Tier 1 (as a percentage of TRWA) (in %)	15.00
18	Total capital (as a percentage of TRWA) (in %)	15.68

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 - 31.12.2023	As at Period End - 31.12.2023	
Assets			
Cash & Balances with CBO	**28,725**	-	-
Balances with bank and money at call and short notice	**23,346**	-	-
Investments:	**90,812**	-	-
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	90,812	-	-
Out of investments in Available for Sale:	-	-	-
Investments in Subsidiaries	-	-	-
Investments in Associates & Joint Ventures	-	-	-
Of which Held for Trading	-	-	-
Loans & Advances	**672,091**	-	-
Of which,	-	-	-
Loans & Advances to domestic banks	-	-	-
Loans & Advances to Non-Resident Banks	-	-	-
Loans & Advances to domestic customers	642,020	-	-
Loans & Advances to Non-Resident Customers for domestic operations	-	-	-
Loans & Advances to Non-Resident Customers for operations abroad	-	-	-
Loans & Advances to SMEs	30,071	-	-

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	
Financing from Islamic Banking Window			
Fixed Assets	**2,119**	-	-
Other Asset	**18,432**	-	-
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	**835,525**	-	-
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 - 31.12.2023	As at Period End - 31.12.2023	
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I)	740	-	n
Retained Earnings (The proposed dividend payment amount is excluded from retained earnings)	37,005	37,005	o
Total Capital	**107,745**	-	-
Deposits	**560,250**	-	-
Of which,	-	-	-
Deposit from Banks	-	-	-
Customer Deposits	560,250	-	-
Deposit of Islamic Banking Window	-	-	-
Other deposits - (Please specify)	-	-	-
Borrowings	**131,834**	-	-
Of which,	-	-	-
From CBO	-	-	-
From Banks (includes borrowing from HO)	131,834	-	-
From other Institutions & Agencies	-	-	-
Borrowings in the form of bonds, debentures & Sukuks	-	-	-
Others (Please specify) (Subordinated Loans)	-	-	-
Other liabilities & provisions	**35,696**	**-**	-
Of which,	-	-	-
DTLs related to goodwill	-	-	-
DTLs related to intangible assets	-	-	-
Total Liabilities	**835,525**	**37,005**	**-**

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	37,005	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	107,005	-
7	Prudential valuation adjustments	(890)	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)	-	97,792
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	93,429	7,061
3	Stable deposits	42,510	1,969
4	Less stable deposits	50,919	5,092
5	Unsecured wholesale funding, of which:	152,127	78,538
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	152,127	78,538
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	47,466	4,428
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	47,466	4,428
14	Other contractual funding obligations	13,262	13,262
15	Other contingent funding obligations	21,362	1,068
16	**TOTAL CASH OUTFLOWS**	**-**	**104,356**
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	96,918	37,440
19	Other cash inflows	12,907	12,907
20	**TOTAL CASH INFLOWS**	**109,824**	**50,347**
			Total Adjusted Value
21	**TOTAL HQLA**	**-**	**97,792**
22	**TOTAL NET CASH OUTFLOWS**	**-**	**54,010**
23	**LIQUIDITY COVERAGE RATIO (%)**	**-**	**181.06%**

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 2023 is 181.06% (2022: 186.3%).

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 16% as at 31 December 2023 as compared to 5% as at 31 December 2022.

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:	315,924	-	-	-	315,924
2	Regulatory capital	102,905		-	-	102,905
3	Other capital instruments	213,019		-	-	213,019
4	Retail deposits and deposits from small business customers:	82,863	4,332	9,934	-	89,652
5	Stable deposits	42,068	815	1,837	-	42,485
6	Less stable deposits	40,795	3,516	8,096	-	47,168
7	Wholesale funding:	111,836	34,629	60,332		118,399
8	Operational deposits	2,585		-	-	1,292
9	Other wholesale funding	109,251	34,629	60,332	-	117,106
10	Liabilities with matching interdependent assets			-	-	
11	Other 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
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in above categories	108,839	-	-	-	-
14	**Total ASF**	**-**	**-**	**-**	**-**	**523,975**
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	3,362
16	Deposits held at other financial institutions for operational purposes	1,772	-	-	-	886
17	Performing loans and securities:	-	36,136	214,929	409,268	441,756
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	-	36,136	214,929	-	126,245
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:	-	-	-	240,534	204,454
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	161,833	105,192

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	-	-	-	6,900	5,865
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other Assets:	-	-	-	28,376	28,392
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	-	-	-	-	16
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	-	-	28,376	28,376
32	Off-balance sheet items	-	-	-	-	3,441
33	**TOTAL RSF**	**-**	**-**	**-**	**-**	**477,837**
34	**NET STABLE FUNDING RATIO (%)**	**-**	**-**	**-**	**-**	**109.66%**

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 2023 is at 109.66% (2022: 119.85%).

MAISARAH
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENT
31 DECEMBER 2023

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Independent auditors' report

To the Shareholders of Bank Dhofar SAOG

Report on the Audit of the Financial Statements

Opinion

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

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

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

Basis for Opinion

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

Continued on page 2

Continued from page 1

Other matter

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

Responsibilities of the Board of Directors for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Continued on page 3

Continued from page 2

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

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

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

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

7 March 2024

KPMG LLC

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Maisarah Islamic Banking Services - window of BankDhofar SAOG

For the year ended 31 December 2023

Statement of Financial Position

For the year ended 31 December 2023

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

The financial statements including notes and other information on pages 314 to 386 were approved by the Board of Directors on 28 January 2024 for issue in accordance with a resolution of Board of Directors and signed on their behalf by:

Chairman

Chief Islamic Banking Officer

Independent auditors report – Page 305 - 307

Maisarah Islamic Banking Services - window of BankDhofar SAOG
For the year ended 31 December 2023

Statement of Comprehensive Income
For the year ended 31 December 2023

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

The attached notes on pages 314 to 386 form an integral part of these financial statements.

Independent auditors report – Pages 305-307.

Maisarah Islamic Banking Services - window of BankDhofar SAOG

For the year ended 31 December 2023

Statement of changes in owners' equity

For the year ended 31 December 2023

	31 December 2023			
	Allocated share capital RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
Balance at 31 December 2022	**70,000**	**(526)**	**28,362**	**97,836**
Total comprehensive income for the year				
Net profit for the year	**-**	**-**	**8,643**	**8,643**
Other comprehensive income for the year				
Fair value change on debt investments through equity	**-**	**1,266**	**-**	**1,266**
Total comprehensive income	**-**	**1,266**	**8,643**	**9,909**
Balance as at 31 December 2023	**70,000**	**740**	**37,006**	**107,745**

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

Statement of sources and uses of charity fund

For the year ended 31 December 2023

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

Maisarah Islamic Banking Services - window of BankDhofar SAOG
For the year ended 31 December 2023

Statement of Cash Flows
For the year ended 31 December 2023

	2023 RO'000	2022 RO'000
Cashflows from operating activities		
Profit for the year	**8,643**	8,342
Adjustments for:		
Depreciation and amortization	**522**	431
Deferred Ijarah cost amortization	**3**	-
Depreciation on Ijarah assets	**5,326**	4,706
Net impairment on financial instruments	**3,056**	3,252
Amortisation of premium / discount on investment	**10**	51
Profit equalisation reserve and Investment risk reserve	**19**	12
Operating profit before changes in operating assets and liabilities	**17,579**	16,794
Operating assets and liabilities:		
Murabaha and other receivables	**(10,680)**	10,398
Ijarah Muntahia Bittamleek assets	**(5,088)**	(26,679)
Proceeds from sale of Ijarah Muntahia Bittamleek assets	**487**	3,790
Diminishing Musharaka financing	**(84,128)**	(40,197)
Mudaraba financing	**1,928**	8,382
Wakala	**(24,391)**	(14,623)
Other asset	**(2,565)**	9,832
Other liabilities	**2,973**	3,407
Qard Hasan from Head Office (operational activities)	**(11,141)**	1,945
Net cash used in operating activities	**(115,026)**	(26,951)
Cash flows from investing activities		
Purchase of investments	**(16,966)**	(11,194)
Proceeds from sale of investments	**20,010**	-
Purchase of property and equipment	**(1,067)**	(352)
Acquisition of intangibles	**(409)**	(267)
Net cash generated from / (used) in investing activities	**1,568**	(11,813)

Statement of Cash Flows
For the year ended 31 December 2023

	2023 RO'000	2022 RO'000
Cash flows from financing activities		
Current account	**1,043**	12,666
Due to banks	**49,275**	(5,775)
Customer Wakala deposit	**61,414**	32,812
Unrestricted investment account holders	**25,598**	(10,300)
Net cash generated from financing activities	**137,330**	29,403
(Decrease)/increase in cash and cash equivalents	**23,872**	(9,361)
Cash and cash equivalents at the beginning of the year	**28,199**	37,560
Cash and cash equivalents at the end of the year	**52,071**	28,199
Cash and cash equivalents at the end of the year comprise:		
Cash and balances with CBO	**28,725**	14,380
Due from banks and financial institutions	**23,346**	13,819
	52,071	28,199

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

The attached notes on pages 314 to 386 form an integral part of these financial statements.

Independent auditors report – Pages 305-307.

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

2.2 Basis of measurement

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

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 2023, the accounting policies applied in these financial statements are the same as those applied in the last financial statements.

2.5.1 FAS 39 Financial reporting for Zakah

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

2.5.2 FAS 41 Interim Financial Reporting

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

2.5.3 FAS 44 Determining Control of Assets and Business

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

2. BASIS OF PREPARATION (continued)

2.6 New standards, interpretations and amendments

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

Standards issued and effective from 1 January 2023

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

- FAS 39 – Financial reporting for Zakah

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

- FAS 41 – Interim financial reporting

- FAS 44 – Determining Control of Assets and Business

Standards issued but not effective from 1 January 2023

FAS 1 General Presentation and Disclosures in the Financial Statements

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

Standards issued but not effective from 1 January 2023 (continued)

FAS 40 Financial Reporting for Islamic Finance Windows

AAOIFI has issued FAS 40 Financial Reporting for Islamic Finance Windows in 2022. The objective of this standard is to establish financial reporting requirements for Islamic financial services offered by conventional financial institutions (in form of Islamic finance windows). This standard applies to all conventional financial institutions providing Islamic financial services through an Islamic finance window. The standard will be effective from the financial periods beginning on or after 1 January 2024 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statementss.

FAS 45 Quasi-Equity (Including Investment Accounts)

AAOIFI has issued FAS 45 Quasi-Equity (Including Investment Account) in 2023. The objective of this standard is to establish the principles of financial reporting related to instruments classified as quasi-equity, such as investment accounts and similar instruments invested with the Islamic financial institutions. This standard applies to all instruments that meet the definition of quasi-equity held with an institution in line with the conceptual framework. The standard will be effective from the financial periods beginning on or after 1 January 2026 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

2. BASIS OF PREPARATION (continued)

2.6 New standards, interpretations and amendments (continued)

FAS 46 Off-Balance-Sheet Assets Under Management

AAOIFI has issued FAS 46 Off-Balance-Sheet Assets under Management in 2023. The objective of this standard is to establish the principles of financial reporting related to off-balance-sheet assets under management in line with the "AAOIFI Conceptual Framework for Financial Reporting". This standard applies to Islamic financial institutions preparing financial statements in line with the requirements of AAOIFI Financial Accounting Standards with regard to the assets managed in a fiduciary capacity without establishing control except for the participants' Takaful fund / participants' investment fund of a Takaful institution; and an investment fund managed by an institution, being a separate legal entity. The standard will be effective from the financial periods beginning on or after 1 January 2026 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

FAS 47 Transfer of Assets Between Investment Pools

AAOIFI has issued FAS 47 Transfer of Assets Between Investment Pools in 2023. The objective of this standard is to establish the principles of financial reporting that apply in respect of transfer of assets between various investment pools of an Islamic financial institution. This standard applies to all transfers of assets between investment pools related to (and where material, between significant categories of) owners' equity, quasi-equity and off-balance-sheet assets under management of all institutions, irrespective of their type or business model. The assets transferred include both monetary and non-monetary assets. The standard will be effective from the financial periods beginning on or after 1 January 2026 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

3. MATERIAL ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of profit or loss.

3.2 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances with Central Bank of Oman, due from banks and highly liquid financial assets with original maturities of up to three months, which are subject to insignificant risk of changes in their fair value, and are used by the Maisarah in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.3 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable or religious right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously in accordance with Shari'a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transactions.

3. MATERIAL 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. MATERIAL 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 assets

Bank as lessor: Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled. Depreciation is calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

Bank as lessee: Maisarah initially recognises right-of-use assets, Ijarah liability and deferred Ijarah cost at the commencement date of the lease. The right-of-use asset shall comprise of the prime cost; initial direct cost; and dismantling or decommissioning cost. The gross Ijarah liability shall be initially recognized as gross amount of total Ijarah rentals payable for the Ijarah term. Deferred Ijarah cost is the difference between the gross Ijarah liability and prime cost of right-of-use asset. Maisarah amortizes the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset which coincides with the end of Ijarah term. Gross Ijarah liability is reduced to reflect the Ijarah rentals made. Deferred Ijarah cost is amortized over the Ijarah term on a time proportionate basis..

3.9 Wa'ad

Wa'ad is a unilateral undertaking (constructive obligation) assumed by a party to the arrangement. The unilateral promise is understood to be binding in Shari'a on the individual who makes it unless a legitimate excuse under Shari'a arises and prevents its fulfilment.

3. MATERIAL ACCOUNTING POLICIES (continued)

3.9 Wa'ad (continued)

Ancillary Wa'ad is a Wa'ad arrangement, where the customer, as a promisor, enters into the Wa'ad arrangement, which is ancillary to the core contracts of Murabaha, Ijarah and Diminishing Musharaka. Product Wa'ad is a Wa'ad arrangement, which is used as a stand-alone Shari'a compliant arrangement in itself. An arrangement where the Bank enters into a foreign exchange forward promise with customers, give rise is recognised as product Wa'ad

3.10 Investments

Investments comprise of equity-type, debt-type (including monetary and non-monetary), and other investment instruments classified as fair value through equity, fair value through income statement, or at amortised cost.

All investments are initially recognised at the fair value plus transaction costs, except for investments at fair value through statement of income. Transaction costs relating to investment at fair value through income statement are charged to the income statement when incurred.

Fair value through equity

Investments which are held with the objective of both collecting the expected cashflow and selling the investment and represent a non-monetary debt-type instrument are measured at investment at fair value through equity.

Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owner's equity and equity of investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in the owner's equity or equity of investment account holders is recognised in the statement of income. Where a reliable measure of fair value for equity instruments is not available, these are measured at cost. Investments carried at fair value through equity are tested for impairment at each reporting period in accordance with impairment policy under 3.10.

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.

3. MATERIAL ACCOUNTING POLICIES (continued)

3.10 Investments (continued)

- For unquoted investments, fair value is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic window using current profit rates. For investments with similar terms and risk characteristics.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

3.11 Impairment

Maisarah has adopted FAS 30 Impairment and credit losses and onerous commitments for the purpose of recognizing impairment allowance. Since all financing, investments and receivables from customers are subject to credit risk, therefore, Maisarah has applied the credit loss approach for determining and measuring the estimated credit loss under different stages of credit risk.

The Islamic window recognises impairment provision for Expected Credit Loss (ECL) on the following financial instruments:

- balances with Central Bank of Oman
- due from banks
- financial assets that are debt-type instruments;
- financing receivables;
- financial guarantee contracts issued
- financing commitments issued; and
- other assets (acceptances and accrued profit).

No ECL is recognised on equity investments.

The Islamic window measures impairment provision at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

The Islamic window considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Islamic window does not apply the low credit risk exemption to any other financial instruments.

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

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

3. MATERIAL 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. MATERIAL 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. MATERIAL ACCOUNTING POLICIES (continued)

3.11 Impairment (continued)

Macroeconomic factors

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

Assessment of significant increase in credit risk

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

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

Presentation of allowance for ECL in the statement of financial position

Allowance for ECL is presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through equity: no provision is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the provision determined is disclosed and recognised in the fair value reserve; and
- Off-balance sheet credit risks include undrawn financing commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

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. MATERIAL 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 34.1.3.

3.12 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write-off the cost of property and equipment, other than freehold land and capital work-in-progress, on straight line basis over their estimated useful lives from the date the asset is brought into use. The estimated useful lives are as follows:

	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. MATERIAL 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. MATERIAL 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

3.22.1 Murabaha and Musawama receivables

Profit from Murabaha and Musawama receivables are recognised on time apportioned basis from the date of contract. Income related to non-performing accounts is excluded from statement of profit or loss.

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. MATERIAL 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.

3.22.10 Profit 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 1,296 thousand (2022: RO 1,251 thousand). Had the taxation been allocated, following would have been the impact:

	2023 RO'000	2022 RO'000
Profit after tax	**7,347**	7,091
Retained earnings	**29,085**	21,738
Capital adequacy ratio	**14.56%**	15.59%

3.24 Employees' benefits

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

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

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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.25 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the approval and supervision of the Shari'a Supervisory Board of Maisarah, which meets periodically and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

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

	2023 RO'000	2022 RO'000
Cash in hand	**2,957**	2,432
Balances with Central Bank of Oman	**25,768**	11,948
	28,725	14,380

6. Due from banks and financial institutions

	2023 RO'000	2022 RO'000
Wakala placement – jointly financed	**21,560**	11,550
Current clearing account – self financed	**1,786**	2,269
	23,346	13,819
Less: Impairment allowance for ECL (note 29)	**(2)**	(2)
	23,344	13,817

At 31 December 2023, placement with one overseas and one local bank individually represented 20% or more of the Islamic window's placements (2022: One bank represented 20% or more).

7. Murabaha and other receivables

	2023 RO'000	2022 RO'000
Gross Murabaha receivables – jointly financed	**32,671**	21,536
Gross Ujrah receivables – jointly financed	**19**	21
	32,690	21,557
Less: Deferred income – jointly financed	**(4,402)**	(3,556)
	28,288	18,001
Credit card receivables – self financed	**1,227**	822
Less: Profit suspended (note 29)	**(20)**	(8)
Less: Impairment allowance for ECL (note 29)	**(394)**	(256)
	29,101	18,559

7. Murabaha and other receivables (continued)

Murabaha and other receivables past due but not impaired amounts to RO 1,327 thousand (2022: RO 920 thousand).

	2023 RO'000	2022 RO'000
Deferred income at 1 January	**3,556**	3,535
Sales revenue during the year	**25,680**	21,592
Cost of sales during the year	**(23,288)**	(20,142)
Profit recognised in income	**(1,322)**	(1,403)
Profit waived off	**(213)**	(23)
Profit amortized during the year	**(1,535)**	(1,426)
Profit suspended (note 29)	**(11)**	(3)
Deferred income at 31 December	**4,402**	3,556

8. Mudaraba financing

	2023 RO'000	2022 RO'000
Mudaraba financing – jointly financed	**7,511**	9,437
Less: Impairment allowance for ECL (note 29)	**(2)**	-
Less: Impairment allowance for ECL (note 29)	**(204)**	(41)
	7,305	9,396

At reporting date, there were no Mudaraba financing cases which were past due but not impaired.

9. Diminishing Musharaka financing

	2023 RO'000	2022 RO'000
Diminishing Musharaka – jointly financed	**471,725**	387,597
Less: Impairment allowance for ECL (note 29)	**(15,271)**	(13,361)
	456,454	374,236

Diminishing Musharaka past due but not impaired amounts to RO 73,012 thousand (2022: RO 69,267 thousand).

Fair value of collaterals

Upon initial recognition of Diminishing Musharaka, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

10. Investments

	2023 RO'000	2022 RO'000
Fair value through equity:		
1. Non-monetary debt type instruments		
Local listed Sukuk – jointly financed	**3,126**	10,576
International listed Sukuk – jointly financed	**-**	9,019
Sovereign Sukuk – jointly financed	**74,230**	66,607
	77,356	86,202
Less: Impairment provision for ECL (note 29)	**(22)**	(47)
Total debt type Sukuk – jointly financed	**77,334**	86,155
2) Equity type instruments		
Local listed Sukuk – jointly financed	**6,206**	6,206
International listed Sukuk – jointly financed	**2,169**	192
Local listed Shares – jointly financed	**5,081**	-
	13,456	6,398
Less: Impairment provision for ECL (note 29)	**(19)**	(11)
Total equity type Sukuk – jointly financed	**13,437**	6,387
Total Sukuk – net of impairment	**90,771**	92,542

During the year movement in investments value (excluding impairment) at fair value through equity:

	2023		
	Non-monetary debt type instruments RO '000	Equity type instruments RO '000	Total RO '000
At 1 January	86,202	6,398	92,600
Additions	10,000	6,966	16,966
Disposals	(20,010)	-	(20,010)
Gain / (loss) from change in fair value	1,215	51	1,266
Amortisation of discount / premium - net	(51)	41	(10)
At 31 December	**77,356**	**13,456**	**90,812**

10. Investments (continued)

	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
Disposals	-	-	-
Gain / (loss) from change in fair value	2,129	(744)	1,385
Amortisation of discount / premium - net	(51)	-	(51)
At 31 December	**86,202**	**6,398**	**92,600**

During the year changes in equity for each level of valuations:

	2023 RO'000	2022 RO'000
Gain on Level 1 investments	**275**	395
Gain on Level 2 investments	**991**	990
Total gain on investments	**1,266**	1,385

11. Wakala

	2023 RO'000	2022 RO'000
Wakala – jointly financed	**98,391**	74,593
Profit receivable on Wakala	**2,279**	1,636
Less: Profit suspended (note 29)	**(52)**	(2)
Less: Impairment allowance for ECL (note 29)	**(1,247)**	(453)
	99,371	75,774

Wakala past due but not impaired amounts to RO 6,159 thousand (2022: RO 3,202 thousand).

12. Ijarah Muntahia Bittamleek

	2023 RO'000	2022 RO'000
Cost – jointly financed		
at 1 January	**76,060**	56,601
Additions	**5,088**	26,679
Disposals	**(4,190)**	(7,220)
at 31 December	**76,958**	76,060
Accumulated depreciation – jointly financed		

12. Ijarah Muntahia Bittamleek (continued)

at 1 January	**(12,665)**	(11,389)
Charge for the year	**(5,326)**	(4,706)
Disposals	**3,703**	3,430
at 31 December	**(14,288)**	(12,665)
Net book value at 31 December	**62,670**	63,395
Less: Impairment allowance for ECL (note 29)	**(504)**	(321)
Net Ijarah Muntahia Bittamleek	**62,166**	63,074

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 5,427 thousand (2022: RO 1,796 thousand).

13. Property and equipment

	2023					
	Furniture, fixtures & equipment RO'000	Motor vehicles RO'000	Computer hardware RO'000	Right-of-Use Asset	Capital work in progress RO'000	Total RO'000
Cost						
at 1 January	**1,604**	**81**	**457**	**-**	**267**	**2,409**
Additions	**546**	**-**	**335**	**70**	**155**	**1,106**
Transfers	**-**	**-**	**54**	**-**	**(221)**	**(167)**
at 31 December	**2,150**	**81**	**846**	**70**	**201**	**3,348**
Accumulated depreciation						
at 1 January	**(1,314)**	**(79)**	**(365)**	**-**	**-**	**(1,758)**
Charge for the year	**(169)**	**(2)**	**(84)**	**(16)**	**-**	**(271)**
at 31 December	**(1,483)**	**(81)**	**(449)**	**(16)**	**-**	**(2,029)**
Net book amount at 31 December	**667**	**-**	**397**	**54**	**201**	**1,319**

	2022					
	Furniture, fixtures & equipment RO'000	Motor vehicles RO'000	Computer hardware RO'000	Right-of-use Asset	Capital work in progress RO'000	Total RO'000
Cost				Asset		
at 1 January	1,474	81	390	-	51	1,996
Additions	1	-	-	-	351	352
Disposals / Transfers	129	-	67	-	(135)	61

12. Property and equipment (continued)

at 31 December	1,604	81	457	-	267	2,409
Accumulated depreciation						
at 1 January	(1,190)	(76)	(336)	-	-	(1,602)
Charge for the year	(124)	(3)	(29)	-	-	(156)
at 31 December	(1,314)	(79)	(365)	-	-	(1,758)
Net book amount at 31 December	290	2	92	-	267	651

14. Intangibles

	2023 RO'000	2022 RO'000
Cost		
at 1 January	**2,294**	2,215
Additions	**409**	267
Transfers from property and equipment	**167**	(188)
at 31 December	**2,870**	2,294
Accumulated amortisation		
at 1 January	**(1,819)**	(1,544)
Charge for the year	**(251)**	(275)
at 31 December	**(2,070)**	(1,819)
Net book amount at 31 December	**800**	475

15. Other assets

	2023 RO'000	2022 RO'000
Ijarah rental receivables	**489**	419
Other profit receivables	**13,813**	10,589
Prepayments	**202**	157
Murabaha and Musawama inventory – Jointly financed (15.1)	**-**	3
Advances – Jointly financed	**576**	892
Others	**742**	556
Acceptances	**2,610**	342
	18,432	12,958
Less: Reserve for suspended profit (note 29)	**(1,624)**	(1,028)
Less: Impairment allowance for ECL on accrued profit (note 29)	**(8)**	(9)
Total	**16,800**	11,921

15.1 During 2022, all Murabaha and Musawama inventories are held under the binding promise to purchase.

16. Current accounts

	2023 RO'000	2022 RO'000
Qard hasan current accounts	**31,350**	30,728
Margin accounts	**5,148**	4,727
Total	**36,498**	35,455

17. Qard Hasan from Head Office

	2023 RO'000	2022 RO'000
Qard Hasan from Head Office (17.1)	**25,000**	35,000
Current clearing account (17.2)	**3,309**	4,405
Total	**28,309**	39,405

17.1 This amount represents profit-free Qard Hasan facility obtained on real need basis from Head Office for a specific period as part of Maisarah's liquidity management.

17.2 This amount represents the vostro account of Maisarah opened with Head Office.

18. Other liabilities

	2023 RO'000	2022 RO'000
Payables	**1,340**	935
Accrued expenses	**3,554**	3,172
Profit payables	**7,319**	5,259
Net Ijarah liability (18.1)	**42**	-
Others	**1,120**	997
Charity payable	**10**	7
Acceptances	**2,610**	342
Impairment allowance for ECL on non-funded exposure (note 29)	**263**	377
Total	**16,258**	11,089

18.1 Summary of gross and net Ijarah liability distributed as per amount due:

	2023 RO'000		2022 RO'000	
	Gross Ijarah	Net Ijarah	Gross Ijarah	Net Ijarah
Wakala inter bank deposits	**16**	13	-	-
More than 12 months but within next 5 years	**31**	29	-	-
Total	**47**	42	-	-

18. Other liabilities (continued)

18.2 Unamortized deferred Ijarah cost movement:

	2023 RO'000	2022 RO'000
At 1 January		
Recognized during the year	**8**	-
Amortized during the year	**(3)**	-
At 31 December	**5**	-

19. Wakala inter bank deposits

	2023 RO'000	2022 RO'000
Wakala inter bank deposits	**103,525**	54,250
Total	**103,525**	54,250

At 31 December 2023, inter bank borrowings with Bank Dhofar SAOG represented 20% or more of the Islamic window's due to banks (2022: inter bank borrowings with Bank Dhofar SAOG and Sharjah Islamic Bank represented 20% or more of the Islamic window's due to banks).

20. Wakala customer deposits

	2023 RO'000	2022 RO'000
Wakala customer call account	**107,141**	118,662
Wakala customer term deposits	**336,870**	263,935
Total	**444,011**	382,597

21. Equity of investment accountholders

	2023 RO'000	2022 RO'000
Saving account	**79,741**	54,143
Profit equalisation reserve	**55**	40
Investment risk reserve	**14**	10
Total	**79,810**	54,193

There is no restricted investment at reporting date.

Basis of distribution of the profit between owners' equity and equity of investment accountholders

21. Equity of investment accountholders (continued)

The investment profits are distributed between owners' equity and equity of investment accountholders for the period ended 31 December 2023 and 2022 as follows:

	2023 %	2022 %
Equity of investment accountholders share	**50%**	50%
Mudarib's share	**50%**	50%

The profit equalisation reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib's share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. Equity of investment accountholders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged to Maisarah.

The investment risk reserve is deducted from investment accountholders share after allocating the Mudarib's share of income as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

21.1 Movement in profit equalisation reserve

	2023 RO'000	2022 RO'000
Balance as at 1 January	**40**	30
Apportioned during the year	**15**	10
Balance as at 31 December	**55**	40

21.2 Movement in investment risk reserve

	2023 RO'000	2022 RO'000
Balance as at 1 January	**10**	8
Apportioned during the year	**4**	2
Balance as at 31 December	**14**	10

22. Allocated share capital

During 2022 and 2023, there was no increase in the assigned capital of Maisarah.

23. Fiduciary assets

At reporting date, there were no funds under management with Maisarah.

24. Income from Islamic finances and receivables

	2023 RO'000	2022 RO'000
Murabaha receivables	**1,321**	1,402
Mudaraba	**494**	753
Ijarah muntahia bittamleek – net (24.1)	**3,539**	3,061
Diminishing Musharaka	**27,266**	22,259
Revenue from Wakala	**4,867**	4,254
Ujrah fees	**1**	1
Total	**37,488**	31,730

24.1 Depreciation on Ijarah Muntahia Bittamleek amounts to RO 5,326 thousand (2022: RO 4,706 thousand).

25. Income or gains / losses from investments

	2023 RO'000	2022 RO'000
Investments at fair value through equity:		
Income on non-monetary debt type instrument	**4,264**	4,666
Income on equity-type instrument	**543**	438
Total	**4,807**	5,104

26. Return on customer Wakala deposits

	2023 RO'000	2022 RO'000
Return allocated to Wakala depositors	**18,505**	13,295
Hiba for Wakala depositors	**64**	-
Total	**18,569**	13,295

27. Staff costs

	2023 RO'000	2022 RO'000
Salaries and allowances	**5,615**	5,052
Other personnel cost	**907**	861
Non-Omani employee terminal benefits	**56**	44
Total	**6,578**	5,957

28. General and administrative expenses

	2023 RO'000	2022 RO'000
Occupancy cost	**569**	611
Operating and administration cost (note 28.1)	**3,527**	4,440
Total	**4,096**	5,051

29. Allowance for expected credit losses

29.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2023 and 2022:

31 December 2023	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Gross exposure				
Balances with Central Bank of Oman	25,768	-	-	25,768
Due from banks and financial institutions	23,346	-	-	23,346
Murabaha and other receivables	25,193	3,634	688	29,515
Mudaraba financing	1,345	5,820	346	7,511
Diminishing Musharaka financing	287,422	167,716	16,587	471,725
Investments	85,731	-	-	85,731
Wakala financing	34,869	63,796	2,005	100,670
Ijarah Muntahia Bittamleek	58,289	4,130	251	62,670
Accrued profit	3,747	8,941	1,614	14,302
Acceptances	2,412	198	-	2,610
Total funded gross exposure	548,122	254,235	21,491	823,848
Letter of credit / guarantee	19,136	8,204	-	27,340
Financing commitment/unutilised limits	56,916	14,904	-	71,820
Total non-funded gross exposure	76,052	23,108	-	99,160
Total gross exposure	624,174	277,343	21,491	923,008
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(2)	-	-	(2)
Murabaha and other receivables	(64)	(23)	(327)	(414)
Mudaraba financing	(8)	(41)	(157)	(206)
Diminishing Musharaka financing	(1,406)	(8,143)	(5,722)	(15,271)
Investments	(41)	-	-	(41)
Wakala	(132)	(422)	(745)	(1,299)

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 2023 and 2022: (continued)

31 December 2023	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Ijarah Muntahia Bittamleek	(94)	(240)	(170)	(504)
Accrued profit	(1)	(7)	(1,624)	(1,632)
Acceptances	(1)	(1)	-	(2)
Total funded	(1,749)	(8,877)	(8,745)	(19,371)
Letter of credit / guarantee	(51)	(38)	-	(89)
Financing commitment / unutilised limits	(115)	(57)	-	(172)
Total non-funded	(166)	(95)	-	(261)
Total allowance and profit suspended	(1,915)	(8,972)	(8,745)	(19,632)
Net exposure				
Balances with Central Bank of Oman	25,768	-	-	25,768
Due from banks and financial institutions	23,344	-	-	23,344
Murabaha and other receivables	25,129	3,611	361	29,101
Mudaraba financing	1,337	5,779	189	7,305
Diminishing Musharaka financing	286,016	159,573	10,865	456,454
Investments	85,690	-	-	85,690
Wakala financing	34,737	63,374	1,260	99,371
Ijarah Muntahia Bittamleek	58,195	3,890	81	62,166
Accrued profit	3,746	8,934	(10)	12,670
Acceptances	2,411	197	-	2,608
Total funded net exposure	546,373	245,358	12,746	804,477
Letter of credit / guarantee	19,085	8,166	-	27,251
Financing Commitment / Unutilised limits	56,801	14,847	-	71,648
Total non-funded net exposure	75,886	23,013	-	98,899
Total net exposure	622,259	268,371	12,746	903,376

29. Allowance for expected credit losses (continued)

31 December 2022	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Gross exposure				
Balances with Central Bank of Oman	11,948	-	-	11,948
Due from banks and financial institutions	13,819	-	-	13,819
Murabaha and other receivables	17,305	990	528	18,823
Mudaraba financing	4,004	5,433	-	9,437
Diminishing Musharaka financing	261,199	120,343	6,055	387,597
Investments	92,600	-	-	92,600
Wakala financing	31,748	44,314	167	76,229
Ijarah Muntahia Bittamleek	62,925	279	191	63,395
Accrued profit	5,907	4,102	999	11,008
Acceptances	240	102	-	342
Total funded gross exposure	501,695	175,563	7,940	685,198
Letter of credit / guarantee	3,539	13,321	-	16,860
Financing commitment/unutilised limits	48,216	49,180	-	97,396
Total non-funded gross exposure	51,755	62,501	-	114,256
Total gross exposure	553,450	238,064	7,940	799,454
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(2)	-	-	(2)
Murabaha and other receivables	(46)	(11)	(207)	(264)
Mudaraba financing	(9)	(32)	-	(41)
Diminishing Musharaka financing	(1,652)	(9,301)	(2,408)	(13,361)
Investments	(58)	-	-	(58)
Wakala	(37)	(371)	(47)	(455)

29. Allowance for expected credit losses (continued)

31 December 2022	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
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)

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:

At 31 December 2023 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	407,118	4,268	1,704	2,564	402,850	405,414	-	-
	Stage 2	192,419	1,894	6,420	(4,526)	190,525	185,999	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**599,537**	**6,162**	**8,124**	**(1,962)**	**593,375**	**591,413**	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	52,677	532	2,449	(1,917)	52,145	50,228	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**52,677**	**532**	**2,449**	**(1,917)**	**52,145**	**50,228**	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	11,211	2,790	3,815	(1,025)	8,362	7,396	-	59
Subtotal		**11,211**	**2,790**	**3,815**	**(1,025)**	**8,362**	**7,396**	-	**59**
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,528	1,047	991	56	1,481	1,537	-	-
Subtotal		**2,528**	**1,047**	**991**	**56**	**1,481**	**1,537**	-	-
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	6,138	2,540	2,315	225	3,583	3,823	-	15
Subtotal		**6,138**	**2,540**	**2,315**	**225**	**3,583**	**3,823**	-	**15**

29. Allowance for expected credit losses (continued)

Other items	Stage 1	217,056	-	211	(211)	217,056	216,845	-	-
	Stage 2	32,247	-	103	(103)	32,247	32,144	-	-
	Stage 3	1,614	-	1,624	(1,624)	(10)	(10)	-	1,624
Subtotal		**250,917**	**-**	**1,938**	**(1,938)**	**249,293**	**248,979**	**-**	**1,624**
Total	Stage 1	624,174	4,268	1,915	2,353	619,906	622,259	-	-
	Stage 2	277,343	2,426	8,972	(6,546)	274,917	268,371	-	-
	Stage 3	21,491	6,377	8,745	(2,368)	13,416	12,746	-	1,698
	Total	**923,008**	**13,071**	**19,632**	**(6,561)**	**908,239**	**903,376**	**-**	**1,698**

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

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	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

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 2023 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	47,065	475	759	(284)	46,590	46,306	-	-
	Stage 2	83,408	818	6,131	(5,313)	82,590	77,277	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**130,473**	**1,293**	**6,890**	**(5,597)**	**129,180**	**123,583**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	11,396	3,076	4,454	(1,378)	7,586	6,942	-	734
Subtotal		**11,396**	**3,076**	**4,454**	**(1,378)**	**7,586**	**6,942**	**-**	**734**
Total	**Stage 1**	**47,065**	**475**	**759**	**(284)**	**46,590**	**46,306**	**-**	**-**
	Stage 2	**83,408**	**818**	**6,131**	**(5,313)**	**82,590**	**77,277**	**-**	**-**
	Stage 3	**11,396**	**3,076**	**4,454**	**(1,378)**	**7,586**	**6,942**	**-**	**734**
	Total	**141,869**	**4,369**	**11,344**	**(6,975)**	**136,766**	**130,525**	**-**	**734**

29. Allowance for expected credit losses (continued)

29.2.2 Restructured financings (continued)

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

* Net of provisions and reserve profit as per CBO norms.

Asset Classification	31 December 2023		
	As per CBO Norms RO'000	As per CL RO'000	Difference RO'000
Impairment loss charged to statement of profit or loss	6,446	6,308	138
Provision required as per CBO norms including reserve profit/held	14,769	19,632	(4,863)
Gross non-performing financing (percentage)	2.96%	2.96%	0.00%
Net non-performing financing (percentage)	2.04%	1.95%	0.09%

29. Allowance for expected credit losses (continued)

29.2.2 Restructured financings (continued)

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%

29.3 Following tables show the movement in impairment allowance for the year:

31 December 2023	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Impairment allowance at beginning	**2,039**	**10,061**	**3,816**	**15,916**
Charge / (Reversal) for the year – Stage 1	**(124)**	**-**	**-**	**(124)**
Charge / (Reversal) for the year – Stage 2	**-**	**(1,089)**	**-**	**(1,089)**
Charge for the year – Stage 3	**-**	**-**	**4,819**	**4,819**
Reversal of charge – Stage 3	**-**	**-**	**(550)**	**(550)**
Net charge for the year	**(124)**	**(1,089)**	**4,269**	**3,056**
Impairment allowance at end before profit suspended	**1,915**	**8,972**	**8,085**	**18,972**
Add: Increase in profit suspended	**-**	**-**	**660**	**660**
Impairment allowance at end	**1,915**	**8,972**	**8,745**	**19,632**

31 December 2022	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Impairment allowance at beginning	5,292	4,732	2,445	12,469
Charge for the year – Stage 1	(3,253)	-	-	(3,253)
Charge 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

30. Related parties transactions

In the ordinary course of business, Maisarah conducts transactions with certain of its directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2023 RO'000	2022 RO'000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**111**	149
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**79**	15,055
Other related parties	**19,727**	29,000
	19,806	44,055
Remuneration paid to Shari'a Board members & Shari'a Supervisor		
Chairman		
– remuneration	**9**	9
– sitting fees paid	**3**	3
Other Members		
– remuneration	**28**	27
– sitting fees paid	**9**	9
	49	48
Other transactions		
Rental payment to a related party	**171**	245
Income from finance to related parties	**6**	8
Profit expense on deposits from related parties	**1,526**	761
Key management compensation		
Salaries and other benefits	**408**	568
	408	568

At 31 December 2023, profit rate for finances range from 3.54% to 5.0% (2022: 3.5% to 5.0%), and profit rate for deposits range from 0.0% to 5.75% (2022: 0.0% to 4.6%).

31. Contingent liabilities and commitments

1. Credit related contingent items

Letters of credit and other commitments for which there are corresponding customer liabilities:

	2023 RO'000	2022 RO'000
Letters of credit	**5,123**	2,447
Guarantees	**22,217**	14,413
Total	**27,340**	16,860

31. Contingent liabilities and commitments (continued)

2 Capital and investment commitments

	2023 RO'000	2022 RO'000
Contractual commitments for property and equipment	**1,340**	2,177

3 The unutilised limits of Maisarah's funded and non-funded exposure for the year ended 31 December 2023 amounts to RO 77,421 thousand (2022: 100,253 thousand).

32. Islamic financial derivatives

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The values of the derivative instruments held are set out as below:

	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 2023				
Currency forward - purchase contracts	**3,850**	**-**	**-**	**3,850**
Currency forward - sale contracts	**3,850**	**-**	**-**	**3,850**

	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

33. Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;;

33. Fair value information (continued)

- 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).

	2023			
Fair value information	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Total RO'000**
Investments at fair value through equity	**90,236**	**576**	**-**	**90,812**

	2022			
Fair value information	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Total RO'000**
Investments at fair value through equity	73,005	19,595	-	92,600

34. Financial risk management

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

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

Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Executive Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. Management Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues up to certain limits.

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 Measures at the Window Level

In line with the CBO guidelines, the Window has considered restructuring of all eligible accounts whose cash flows have been impacted by the COVID-19 situation and has backed by specific requests from them. For such cases, every review includes an assessment on whether the strain on cash flows observed are on account of the COVID impact or otherwise and in case these are identified to be otherwise, the accounts are suitably staged. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of related accounting standard. As at 31 December 2023, the Window has restructured financing amounting to RO 141,869 thousand, constituting 21% of total financing. Window has also considered additional ECL to address significant increase in credit risk in certain accounts based on its judgment and experience.

The Window has also undertaken other initiatives to manage the potential business disruption on its operations and financial performance. This entails reviewing counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of financing, wherever required. The set-up of robust digital technology supported in maintaining customer service and experience during these trying times.

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available. In assessing forecast conditions, consideration have been given both to the effects of COVID (including various variants of virus) and the government support measures being undertaken.

34.1.1 Impact on SICR:

The Window has given specific consideration to the relevant impact of COVID on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in staging downgrade of certain exposures and recognition of relevant ECLs and impairment allowances as disclosed in note 34 to the financial statements. Further, the monitoring of overdue and SICR have been enhanced by reviewing all exceptional reports and undertaking quarterly reviews in respect of accounts in risk grade of 5 to 8. Additional exposure is undertaken on selective basis duly supported by the cashflows that can be firmly established, and the requirements are considered with proper monitoring mechanism.

34.1.2 Impact on ECL:

The Window estimates its Expected Credit Losses (ECLs) considering the macroeconomic indicators and ECLs were estimated based on forward-looking macro-economic factors considering the severity and likelihood of economic scenarios. The macro-economic variables for estimation of forward-looking factor in ECL were identified based on their level and direction of association with asset quality ratio of Oman Banking sector. The forward-looking factors, called as Cyclicality Index, is used to forecast expected point-in-time probability of defaults for all the portfolio for which ECL is estimated. The forward-looking macro-economic factors were revised during the year 2023 as per guidelines of the Bank and in line with the revision of GDP projections by the International Monetary Fund. The revision made in the macro-economic indicators during last year is provided as under:

34. Financial risk management (continued)

Credit risk (continued)

34.1 Impact of COVID on the Window (continued)

34.1.2 Impact on ECL: (continued)

	Real GDP growth (%)		Oil revenue (%GDP)	
	Dec-23	**Dec-22**	**Dec-23**	**Dec-22**
Present	**5.00%**	**12.70%**	**29.42%**	**25.97%**
Year 1	**5.50%**	**5.60%**	**28.00%**	**33.35%**
Year 2	**1.90%**	**2.70%**	**27.97%**	**28.77%**
Year 3	**2.30%**	**2.50%**	**26.20%**	**26.35%**

The ECL has been calculated as probability weighted figure for three scenarios i.e. Base case, Upside and Downside with 50%, 25% and 25% weightings respectively. No change has been considered in the weightage, as the situation is fast evolving and the Window has already considered the conservative estimates of macro-economic indicators as base case, as highlighted in the above table. As per the revised estimates provided by different agencies, the real GDP growth projections have improved.

The Window's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise. Other than changes in the macro-economic indicators, the Window has also considered 12-month ECL for revolving credit facilities as advised by the regulator. The total ECL of Maisarah has increased from RO 14,878 thousand as at Dec-22 to RO 17,934 thousand as at Dec-23, thereby increasing the ECL by RO 3,056 thousand. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

Sensitivity of ECL to future economic conditions

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

As at 31 December 2023	ECL for Financing / Receivables RO'000	ECL for Investment securities RO'000	ECL for Other Portfolio RO'000	Total RO'000
Scenarios currently used by the Window	**17,620**	**41**	**273**	**17,934**
100% Base case scenario	**17,345**	**41**	**275**	**17,661**
100% Downside scenario	**20,305**	**69**	**510**	**20,884**

As at 31 December 2022	ECL for Financing / Receivables 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

The above tables reveal that in case of 100% downside scenario, the ECL may increase by RO 2,950 thousand (2022: 1,619 thousand) from the current position.

34. Financial risk management (continued)

Credit risk (continued)

34.1 Impact of COVID on the Window (continued)

34.1.3 Accounting for modification loss and restructuring:

In case of corporate customers, the Window plans to add the simple profit accrued during the deferral period to the principal outstanding and either extend the original maturity period of the financing or increase the instalments at the end of the DP. The Window has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures did not result in derecognition of financial assets.

Considering the specific nature of Islamic Financial Institutions (IFIs), in line with the Shari'a principles and rules, AAOIFI does not allow either recording a receivable (Dain) on net present value (NPV) or applying the concept of opportunity cost in accounting.

34.1.4 Impact on the Capital Adequacy:

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

- The Stage 2 ECL amount as on Dec-19 is considered "Base Year Amount"; and
- The incremental ECL (i.e., Stage 2 ECL at a respective reporting date minus Stage 2 ECL as at Dec-19) may be considered for Tier 2 capital subject to incremental reduction of 20% ECL every year (like 80% in 2022, 60% in 2023, 40% in 2023 etc.).

The Tier II Capital has improved by 0.30% due to application of the above prudential filter.

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

Gross exposures subjected to credit risk exposure are as follows:

1. Portfolio concentrations (Gross)

	2023 RO'000	2022 RO'000
Balances with CBO	**25,768**	11,948
Due from Banks	**23,346**	13,819
Total financing	**672,091**	555,481
Investments	**85,731**	92,600
Letter of credit / Guarantee	**27,340**	16,860
Acceptances	**2,610**	342
Unutilized exposure	**71,820**	97,396
Accrued profit	**14,302**	11,008
Total	**923,008**	799,454

34. Financial risk management (continued)

Credit risk (continued)

2. Geographical concentrations (Gross)

	2023				
	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	25,768	-	-	-	25,768
Due from Banks	10,010	11,991	1,345	-	23,346
Total financing	672,091	-	-	-	672,091
Investments	83,562	2,169	-	-	85,731
Letter of credit / Guarantee	24,137	246	1,096	1,861	27,340
Acceptances	128	148	152	2,182	2,610
Unutilized exposure	71,820	-	-	-	71,820
Accrued profit	14,277	25	-	-	14,302
Total	901,793	14,579	2,593	4,043	923,008

	2022				
	Sultanate of Oman 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

34. Financial risk management (continued)

Credit risk (continued)

3. Customer concentrations (Gross)

	2023			
	Retail RO'000	Corporate RO'000	Government RO'000	Total RO'000
Balances with CBO	-	-	25,768	25,768
Due from Banks	-	23,346	-	23,346
Total financing	225,591	446,500	-	672,091
Investments	-	11,501	74,230	85,731
Letter of credit / Guarantee	8,841	18,499	-	27,340
Acceptances	35	2,575	-	2,610
Unutilized exposure	-	71,820	-	71,820
Accrued profit	626	13,247	429	14,302
Total	235,093	587,488	100,427	923,008

	2022			
	Retail 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

34. Financial risk management (continued)

Credit risk (continued)

4. Sector concentrations (Gross)

2023	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	-	-	49,750	-	3,628	2,302	12,562	21	**68,263**
Export trade	-	-	-	-	5	-	-	-	**5**
Wholesale & retail trade	-	-	16,002	-	329	12	2,553	83	**18,979**
Mining & quarrying	-	-	6,089	-	60	-	4	3	**6,156**
Construction	-	-	237,331	-	11,844	223	9,874	8,626	**267,898**
Manufacturing	-	-	20,667	-	505	-	21,088	75	**42,335**
Electricity, gas and water	-	-	9,874	-	-	-	635	-	**10,509**
Transport & communication	-	-	28	-	354	-	1,649	-	**2,031**
Financial institutions	-	23,346	5,003	11,501	8	-	14,800	380	**55,038**
Services	-	-	69,401	-	1,458	-	2,682	3,733	**77,274**
Government	25,768	-	-	74,230	-	-	-	429	**100,427**
Retail	-	-	225,591	-	8,841	35	-	626	**235,093**
Agriculture and allied Activities	-	-	10,937	-	39	38	4,713	3	**15,730**
Others	-	-	21,418	-	269	-	1,260	323	**23,270**
Total	**25,768**	**23,346**	**672,091**	**85,731**	**27,340**	**2,610**	**71,820**	**14,302**	**923,008**

34. Financial risk management (continued)

Credit risk (continued)

4. Sector concentrations (Gross) (continued)

2022	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)

5. Credit quality concentration (Gross)

	2023			
	Performing Not Past Due RO'000	Performing Past Due RO'000	Non-Performing RO'000	Total RO'000
Balances with CBO	25,768	-	-	**25,768**
Due from Banks	23,346	-	-	**23,346**
Total financing	566,289	85,925	19,877	**672,091**
Investments	85,731	-	-	**85,731**
Letter of credit / Guarantee	27,340	-	-	**27,340**
Acceptances	2,610	-	-	**2,610**
Unutilized exposure	71,820	-	-	**71,820**
Accrued profit	10,162	2,526	1,614	**14,302**
Total	**813,066**	**88,451**	**21,491**	**923,008**

	2022			
	Performing Not Past Due 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

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 2023 including the projections used is presented as under:

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

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

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 2023	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	-	25,768	-	-	-	-	**-**	**25,768**
Standard grade	-	-	-	-	-	-	**-**	**-**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**-**	**25,768**	**-**	**-**	**-**	**-**	**-**	**25,768**
Banks								
High grade	-	-	-	-	-	-	**-**	**-**
Standard grade	2	23,346	-	-	-	-	**2**	**23,346**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**2**	**23,346**	**-**	**-**	**-**	**-**	**2**	**23,346**
Financing to customers Corporate and SME								
High grade	82	32,463	1,333	12,676	-	-	**1,415**	**45,139**
Standard grade	501	105,562	3,460	156,797	-	-	**3,961**	**262,359**
Satisfactory grade	690	47,129	3,630	73,407	-	-	**4,320**	**120,536**
Non-performing	-	-	-	-	6,305	18,466	**6,305**	**18,466**
Total	**1,273**	**185,154**	**8,423**	**242,880**	**6,305**	**18,466**	**16,001**	**446,500**
Retail (Personal)								
High grade	45	18,528	-	-	-	-	**45**	**18,528**
Standard grade	4	472	-	-	-	-	**4**	**472**
Satisfactory grade	-	-	13	122	-	-	**13**	**122**
Non-performing	-	-	-	-	134	191	**134**	**191**
Total	**49**	**19,000**	**13**	**122**	**134**	**191**	**196**	**19,313**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2023	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	382	202,964	257	1,133	77	117	**716**	**204,214**
Standard grade	-	-	85	606	16	39	**101**	**645**
Satisfactory grade	-	-	91	355	-	-	**91**	**355**
Non-performing	-	-	-	-	589	1,064	**589**	**1,064**
Total	**382**	**202,964**	**433**	**2,094**	**682**	**1,220**	**1,497**	**206,278**
Total financing	**1,704**	**407,118**	**8,869**	**245,096**	**7,121**	**19,877**	**17,694**	**672,091**
Investments								
High grade	-	74,230	-	-	-	-	**-**	**74,230**
Standard grade	41	11,501	-	-	-	-	**41**	**11,501**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**41**	**85,731**	**-**	**-**	**-**	**-**	**41**	**85,731**
Letter of credit / Guarantees								
Corporate and SME	34	10,295	38	8,204	-	-	**72**	**18,499**
Retail	17	8,841	-	-	-	-	**17**	**8,841**
Total	**51**	**19,136**	**38**	**8,204**	**-**	**-**	**89**	**27,340**
Others								
Unutilised	115	56,916	57	14,904	-	-	**172**	**71,820**
Acceptances	1	2,412	1	198	-	-	**2**	**2,610**
Accrued profit	1	3,747	7	8,941	1,624	1,614	**1,632**	**14,302**
Total	**117**	**63,075**	**65**	**24,043**	**1,624**	**1,614**	**1,806**	**88,732**
Total portfolio	**1,915**	**624,174**	**8,972**	**277,343**	**8,745**	**21,491**	**19,632**	**923,008**

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

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 2023 along with reconciliations from the opening to the closing balance by class of financial instruments are as follows:

31 December 2023	Stage 1		Stage 2		Stage 3		Total	
	ECL 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	-	11,948	-	-	-	-	**-**	**11,948**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	13,820	-	-	-	-	**-**	**13,820**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**-**	**25,768**	**-**	**-**	**-**	**-**	**-**	**25,768**
Banks								
Opening balance	2	13,819	-	-	-	-	**2**	**13,819**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	(483)	-	-	-	-	**-**	**(483)**
Financial asset originated during the year	2	21,560	-	-	-	-	**2**	**21,560**
Financial asset matured during the year	(2)	(11,550)	-	-	-	-	**(2)**	**(11,550)**
Closing balance	**2**	**23,346**	**-**	**-**	**-**	**-**	**2**	**23,346**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2023	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	1,879	377,181	9,775	171,359	2,788	6,941	**14,442**	**555,481**
Transfer between stages								
- Transfer from Stage 1 to 2	(270)	(21,389)	270	21,389	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(72)	(4,168)	-	-	72	4,168	**-**	**-**
- Transfer from Stage 2 to 3	-	-	(412)	(6,033)	412	6,033	**-**	**-**
- Transfer from Stage 2 to 1	126	4,715	(126)	(4,715)	-	-	**-**	**-**
	4	12	-	-	(4)	(12)	**-**	**-**
Re-measurement of outstanding	(208)	(14,127)	(579)	(9,291)	2,386	(961)	**1,599**	**(24,379)**
Financial asset originated during the year	389	130,469	343	118,768	1,579	4,152	**2,311**	**253,389**
Financial asset matured during the year	(144)	(65,575)	(402)	(46,381)	(112)	(444)	**(658)**	**(112,400)**
Closing balance	**1,704**	**407,118**	**8,869**	**245,096**	**7,121**	**19,877**	**17,694**	**672,091**
Corporate and SME								
Opening balance	1,605	203,275	9,485	169,669	2,381	6,355	**13,471**	**379,299**
Transfer between stages								
- Transfer from Stage 1 to 2	(262)	(20,265)	262	20,265	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(70)	(3,626)	-	-	70	3,626	**-**	**-**
- Transfer from Stage 2 to 3	-	-	(345)	(5,721)	345	5,721	**-**	**-**
- Transfer from Stage 2 to 1	76	4,285	(76)	(4,285)	-	-	**-**	**-**
	(256)	(19,606)	(159)	10,259	415	9,347	**-**	**-**
Re-measurement of outstanding	(209)	(5,130)	(792)	(9,107)	2,045	(940)	**1,044**	**(15,177)**
Financial asset originated during the year	261	60,901	282	118,396	1,576	4,148	**2,119**	**183,445**
Financial asset matured during the year	(128)	(54,286)	(393)	(46,337)	(112)	(444)	**(633)**	**(101,067)**
Closing balance	**1,273**	**185,154**	**8,423**	**242,880**	**6,305**	**18,466**	**16,001**	**446,500**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2023	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	274	173,906	290	1,690	407	586	**971**	**176,182**
Transfer between stages								
- Transfer from Stage 1 to 2	(8)	(1,124)	8	1,124	-	-	-	-
- Transfer from Stage 1 to 3	(2)	(542)	-	-	2	542	-	-
- Transfer from Stage 2 to 3	-	-	(67)	(312)	67	312	-	-
- Transfer from Stage 2 to 1	50	430	(50)	(430)	-	-	-	-
-Transfer from Stage 3 to 1	4	12	-	-	(4)	(12)	-	-
	44	(1,224)	(109)	382	65	842	-	-
Re-measurement of outstanding	1	(8,997)	213	(184)	341	(21)	**555**	**(9,202)**
Financial asset originated during the year	128	69,568	61	372	3	4	**192**	**69,944**
Financial asset matured during the year	(16)	(11,289)	(9)	(44)	-	-	**(25)**	**(11,333)**
Closing balance	**431**	**221,964**	**446**	**2,216**	**816**	**1,411**	**1,693**	**225,591**
Investments								
Opening balance	58	92,600	-	-	-	-	**58**	**92,600**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	(32)	47	-	-	-	-	**(32)**	**47**
Financial asset originated during the year	23	12,295	-	-	-	-	**23**	**12,295**
Financial asset matured during the year	(8)	(19,211)	-	-	-	-	**(8)**	**(19,211)**
Closing balance	**41**	**85,731**	**-**	**-**	**-**	**-**	**41**	**85,731**

34. Financial risk management (continued)

Credit risk (continued)

6. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2023	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	15	3,539	101	13,321	-	-	**116**	**16,860**
Transfer between stages								
- Transfer from Stage 1 to 2	(3)	(744)	3	744	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	48	4,419	(48)	(4,419)	-	-	**-**	**-**
	45	3,675	(45)	(3,675)	-	-	**-**	**-**
Re-measurement of outstanding	(32)	(504)	10	31	-	-	**(22)**	**(473)**
Financial asset originated during the year	28	14,365	5	2,229	-	-	**33**	**16,594**
Financial asset matured during the year	(5)	(1,939)	(33)	(3,702)	-	-	**(38)**	**(5,641)**
Closing balance	**51**	**19,136**	**38**	**8,204**	**-**	**-**	**89**	**27,340**
Acceptances								
Opening balance	1	240	-	102	-	-	**1**	**342**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	1	2,412	1	198	-	-	**2**	**2,610**
Financial asset matured during the year	(1)	(240)	-	(102)	-	-	**(1)**	**(342)**
Closing balance	**1**	**2,412**	**1**	**198**	**-**	**-**	**2**	**2,610**

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	80	48,216	180	49,180	-	-	**260**	**97,396**
Transfer between stages								
- Transfer from Stage 1 to 2	(13)	(2,045)	13	2,045	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	14	22,691	(14)	(22,691)	-	-	**-**	**-**
	1	20,646	(1)	(20,646)	-	-	**-**	**-**
Re-measurement of outstanding	(34)	(32,117)	(2)	(624)	-	-	**(36)**	**(32,741)**
Financial asset originated during the year	105	34,691	18	6,305	-	-	**123**	**40,996**
Financial asset matured during the year	(37)	(14,520)	(138)	(19,311)	-	-	**(175)**	**(33,831)**
Closing balance	**115**	**56,916**	**57**	**14,904**	**-**	**-**	**172**	**71,820**
Accrued profit								
Opening balance	4	5,907	5	4,102	1,028	999	**1,037**	**11,008**
Transfer between stages								
- Transfer from Stage 1 to 2	-	(335)	-	335	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	(81)	-	-	-	81	**-**	**-**
- Transfer from Stage 2 to 3	-	-	(1)	(240)	1	240	**-**	**-**
- Transfer from Stage 2 to 1	-	58	-	(58)	-	-	**-**	**-**
	-	(358)	(1)	37	1	321	**-**	**-**
Re-measurement of outstanding	(3)	(1,607)	2	1,779	431	146	**430**	**318**
Financial asset originated during the year	-	227	1	3,198	178	175	**179**	**3,600**
Financial asset matured during the year	-	(422)	-	(175)	(14)	(27)	**(14)**	**(624)**
Closing balance	**1**	**3,747**	**7**	**8,941**	**1,624**	**1,614**	**1,632**	**14,302**

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								
Opening balance	-	21,217	-	-	-	-	**-**	**21,217**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	(9,269)	-	-	-	-	**-**	**(9,269)**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**-**	**11,948**	**-**	**-**	**-**	**-**	**-**	**11,948**
Banks								
Opening balance	1	13,831	-	-	-	-	**1**	**13,831**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	1	(12)	-	-	-	-	**1**	**(12)**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**2**	**13,819**	**-**	**-**	**-**	**-**	**2**	**13,819**

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**
Initial application on FAS 31								
Transfer between stages	(260)	(29,907)	260	29,907	-	-	-	-
- Transfer from Stage 1 to 2	(1)	(231)	-	-	1	231	-	-
- Transfer from Stage 1 to 3	-	-	(116)	(868)	116	868	-	-
- Transfer from Stage 2 to 1	1,118	21,737	(1,118)	(21,737)	-	-	-	-
	857	(8,401)	(974)	7,302	117	1,099	-	-
Re-measurement of outstanding	(2,466)	(12,866)	754	(10,862)	764	(28)	**(948)**	**(23,756)**
Financial asset originated during the year	1,237	163,773	7,290	114,264	303	1,211	**8,830**	**279,248**
Financial asset matured during the year	(2,360)	(122,782)	(1,687)	(78,476)	(5)	(8)	**(4,052)**	**(201,266)**
Closing balance	**1,879**	**377,181**	**9,775**	**171,359**	**2,788**	**6,941**	**14,442**	**555,481**
Corporate and SME								
Opening balance	4,086	183,831	4,048	137,716	1,328	4,203	**9,462**	**325,750**
Initial application on FAS 31								
Transfer between stages	(249)	(28,971)	249	28,971	-	-	-	-
- Transfer from Stage 1 to 2	(1)	(152)	-	-	1	152	-	-
- Transfer from Stage 1 to 3	-	-	(101)	(811)	101	811	-	-
- Transfer from Stage 2 to 1	1,014	21,214	(1,014)	(21,214)	-	-	-	-
	764	(7,909)	(866)	6,946	102	963	-	-
Re-measurement of outstanding	(2,128)	(4,424)	677	(10,815)	648	(22)	**(803)**	**(15,261)**
Financial asset originated during the year	1,204	143,441	7,282	114,187	303	1,211	**8,789**	**258,839**
Financial asset matured during the year	(2,321)	(111,664)	(1,656)	(78,365)	-	-	**(3,977)**	**(190,029)**
Closing balance	**1,605**	**203,275**	**9,485**	**169,669**	**2,381**	**6,355**	**13,471**	**379,299**

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	274	173,906	290	1,690	407	586	**971**	**176,182**
Transfer between stages								
- Transfer from Stage 1 to 2								
- Transfer from Stage 1 to 3	150	80,112	-	-	-	-	**150**	**80,112**
- Transfer from Stage 2 to 1								
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
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**

34. Financial risk management (continued)

Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

Maisarah's liquidity risk management is governed by the ALM risk policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

The CBO has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. As per CBO guidelines LCR should be minimum 100% on an ongoing basis with effect from 01 January 2019 and the Window is in compliance of regulatory limit of LCR as at 31 December 2023, with LCR of 366.45% (2022: 132.19%).

The NSFR is a longer-term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. Maisarah needs to maintain a minimum ratio of 100% as per the regulatory guidance. The NSFR of the Window as at 31 December 2023 is 113.40% (2022: 123.48%) based on closing balance position.

The full report on LCR and NSFR is disclosed by the Bank in its website.

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 2023						
Balances with Central Bank of Oman	25,768	-	-	-	-	**25,768**
Due from banks and financial institutions	23,358	-	-	-	-	**23,358**
Total financing	148,166	53,199	60,419	286,469	312,000	**860,253**
Investments	106	8,017	22,246	55,056	12,490	**97,915**
Other assets	15,202	1,710	-	-	1,520	**18,432**
Total assets – funded	212,600	62,926	82,665	341,525	326,010	**1,025,726**
Forward purchases	3,850	-	-	-	-	**3,850**
Total assets – non funded (Forwards)	**3,850**	**-**	**-**	**-**	**-**	**3,850**
Total assets – funded and non funded	**216,450**	**62,926**	**82,665**	**341,525**	**326,010**	**1,029,576**
Current accounts	11,417	10,969	6,274	-	7,838	**36,498**
Qard Hasan from Head Office	3,309	-	15,000	10,000	-	**28,309**
Other liabilities	10,543	1,746	36	63	53	**12,441**
Wakala inter bank deposits	68,592	36,225	-	-	-	**104,817**
Wakala customer deposits	23,909	64,864	130,568	181,857	87,638	**488,836**
Equity of unrestricted investment accountholders	3,992	8,020	8,996	42,914	21,458	**85,380**
Total liabilities and accountholders equity	**121,762**	**121,824**	**160,874**	**234,834**	**116,987**	**756,281**
Forward sales	3,850	-	-	-	-	**3,850**
Letter of credit and guarantees	27,340	-	-	-	-	**27,340**
Unutilised limits for financing and receivables	71,820	-	-	-	-	**71,820**
Total liabilities non funded (Forwards)	**103,010**	**-**	**-**	**-**	**-**	**103,010**
Total liabilities funded and non funded; and accountholders equity	**224,772**	**121,824**	**160,874**	**234,834**	**116,987**	**859,291**
Gap	**(8,322)**	**(58,898)**	**(78,209)**	**106,691**	**209,023**	**170,285**
Cumulative gap	**(8,322)**	**(67,220)**	**(145,429)**	**(38,738)**	**170,285**	**-**

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 2022						
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)

Market risk

Fair Valuation of Securities

Given the current economic outlook, the reduction in fair valuation of certain instruments at 31 December 2023 is by RO 54 thousand (2022: 1,019 thousand).

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

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.

	2023			2022		
	Assets RO'000	Liabilities RO'000	Net RO'000	Assets RO'000	Liabilities RO'000	Net RO'000
US Dollars	**27,342**	**43,184**	**15,842**	93,103	74,739	18,364
Euro	**52**	**1**	**51**	23	3	20
UAE Dirham	**342**	**5**	**337**	500	4	496
Others	**99**	**-**	**99**	110	-	110
Total	**27,835**	**43,190**	**16,329**	93,736	74,746	18,990

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 2023								
Cash and balances with Central Bank of Oman	-						28,725	**28,725**
Due from banks and financial institutions	**5.23%**	21,560	-	-	-	-	1,784	**23,344**
Murabaha and other receivables	**5.47%**	8,880	2,281	1,527	10,199	6,301	(87)	**29,101**
Mudaraba financing	**5.83%**	-	-	7,165	189	-	(49)	**7,305**
Diminishing Musharaka Financing	**6.35%**	57,137	33,925	34,821	163,661	176,459	(9,549)	**456,454**
Investments	**5.39%**	-	5,762	20,000	48,393	11,576	5,040	**90,771**
Wakala	**5.50%**	74,658	4,119	2,507	14,853	1,587	1,647	**99,371**
Ijara Muntahia Bittamleek	**5.61%**	474	2,285	2,794	22,806	34,141	(334)	**62,166**
Property and equipment	-	-	-	-	-	-	1,319	**1,319**
Intangibles	-	-	-	-	-	-	800	**800**
Other asset	-	-	-	-	-	-	16,800	**16,800**
Total assets		**162,709**	**48,372**	**68,814**	**260,101**	**230,064**	**46,096**	**816,156**
Current accounts	**0.00%**	-	-	-	-	-	36,498	**36,498**
Qard Hasan from Head office	-	-	-	-	-	-	28,309	**28,309**
Other liabilities	-	-	-	-	-	-	16,258	**16,258**
Wakala inter bank deposits	**5.30%**	68,525	35,000	-	-	-	-	**103,525**
Wakala customer deposits	**4.49%**	2,230	28,395	121,061	185,184	107,141	-	**444,011**
Equity of unrestricted investment accountholders	**1.14%**	79,741	-	-	-	-	69	**79,810**
Owner's equity	-	-	-	-	-	-	107,745	**107,745**
Equity of accountholders & Total liabilities and shareholders' equity		**150,496**	**63,395**	**121,061**	**185,184**	**107,141**	**188,879**	**816,156**
On-balance sheet gap		**12,213**	**(15,023)**	**(52,247)**	**74,917**	**122,923**	**(142,783)**	**-**
Cumulative profit sensitivity gap		**12,213**	**(2,810)**	**(55,057)**	**19,860**	**142,783**	**-**	**-**

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)

3. Equity risk

Equity risk is the risk that the fair value of equities held-for-trading purpose decreases as the result of changes in the level of equity indices and individual stocks. The non–trading equity risk exposure arises from equity securities classified as FVOCI.

Operational risk

Maisarah has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Maisarah to provide 15% of the average three years gross annual income as capital charge for operational risk.

35. Capital management

CBO sets and monitors capital requirements for the Bank as whole as well as individually for Islamic window. A minimum of 11% ratio of total capital to total risk-weighted assets ratio is required to be maintained by Maisarah. The regulatory capital of Islamic window is analysed into the following tiers:

- Tier I capital, which includes share capital allocated from the Head office; deduction of unrealized loss on investment at fair value through equity; and retained earnings; and
- • Tier II capital, which includes the impairment provision.

	2023 RO'000	2022 RO'000
Types of capital		
Tier I capital	**106,115**	96,394
Tier II capital	**4,790**	6,553
Total Regulatory Capital	**110,905**	102,947
Risk weighted assets (RWA)		
Credit risk weighted assets	**612,150**	541,475
Market risk weighted assets	**12,916**	4,717
Operational risk weighted assets	**82,142**	71,614
Total risk weighted assets	**707,208**	617,806
Capital ratios		
Tier I capital ratio (%)	**15.00%**	15.60%
Total capital as a % of RWA	**15.68%**	16.66%

36. Segmental information

Maisarah is organised into three main business segments:

(1) Retail banking – incorporating private customer current accounts, savings account, term deposits, Murabaha, Diminishing Musharaka financing and Ijarah Muntahia Bittamleek;

(2) Corporate banking – incorporating current accounts, savings account, term deposits, Murabaha, Mudaraba, Wakala and Diminishing Musharaka financing; and

(3) Treasury & investments

Segment assets and liabilities including quasi-equity comprise operating assets and liabilities.

	2023			
	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenue	**4,211**	**13,476**	**613**	**18,300**
Other revenues	**691**	**2,719**	**1,188**	**4,598**
Total segment operating revenue	**4,902**	**16,195**	**1,801**	**22,898**
Segment cost				
Operating expenses including depreciation	**(3,776)**	**(6,206)**	**(1,217)**	**(11,199)**
Net impairment	**(731)**	**(2,342)**	**17**	**(3,056)**
Net profit for the year before tax	**395**	**7,647**	**601**	**8,643**
Segment assets	**226,878**	**462,775**	**144,174**	**833,827**
Less: Provision for impairment	**(1,679)**	**(15,949)**	**(43)**	**(17,671)**
Total segment assets	**225,199**	**446,826**	**144,131**	**816,156**
Segment liabilities	**275,104**	**296,621**	**136,686**	**708,411**

	2022			
	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenue	4,971	14,091	1,410	20,472
Other revenues	494	1,288	779	2,561
Net operating income	5,465	15,379	2,189	23,033
Segment cost				
Operating expenses including depreciation	(4,906)	(5,229)	(1,304)	(11,439)
Provision for impairment	181	(3,524)	91	(3,252)
Net profit for the year before tax	740	6,626	976	8,342
Segment assets	177,065	390,167	122,094	689,326
Less: Provision for impairment	(964)	(13,477)	(60)	(14,501)
Total segment assets	176,101	376,690	122,034	674,825
Segment liabilities	152,469	327,407	97,113	576,989

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