Annual Report 2023

Unlock opportunities

البنك الوطني العماني
NBO
50
Since 1973

حضرة صاحب الجلالة السلطان هيثم بن طارق المعظم حفظه الله ورعاه
His Majesty Sultan Haitham bin Tarik

السلطان قابوس بن سعيد طيب الله ثراه
Late Sultan Qaboos bin Said

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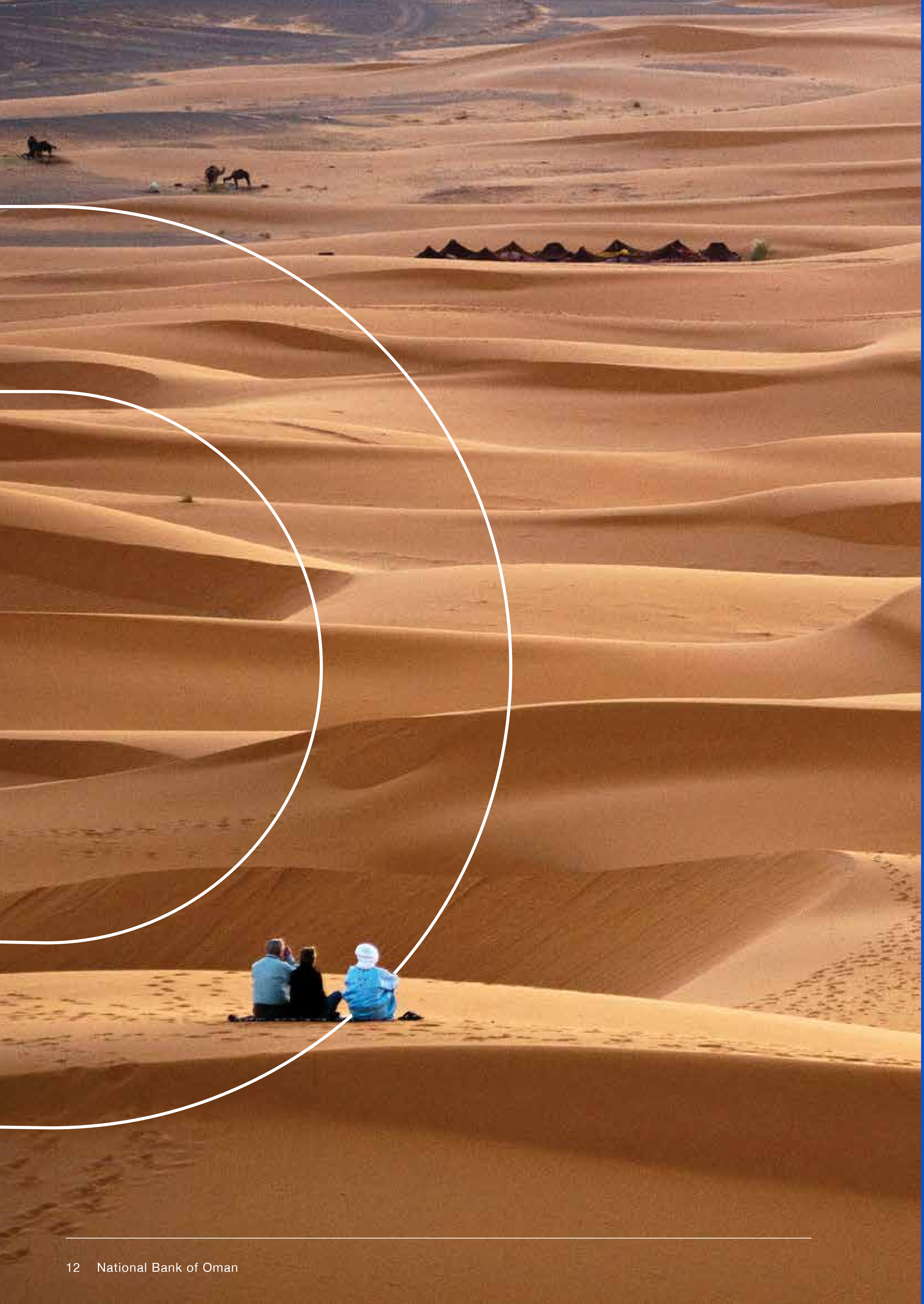
2023 Overview

To unlock opportunities as one



Our Values

Authentic, first and foremost

We reflect the true Oman, welcoming everyone into our family; it's in our heritage to build and nurture strong relationships.

Creating value through connection

We're collaborative and resourceful, proactively finding synergies as a team that help us bring new opportunities and create value.

Relentlessly pioneering

We never rest, always looking to grow, learn and find new ways that push the boundaries of what's possible.

Pursuing simplicity

We're constantly trying to make every interaction and experience simpler and more seamless.

50 years of Growth

50 years of unwavering commitment,
50 more of boundless possibility.
Thank you for being part of our
remarkable story

Amal Suhail Bahwan
CHAIRPERSON

Chairperson’s Annual Report 2023

On behalf of the Board of Directors of National Bank of Oman SAOG, I am pleased to present the 2023 Annual Report for the period ended 31 December 2023.

Oman’s Economy

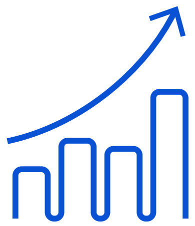
In 2023, Oman continued to advance on its journey toward economic resilience and sustainable growth, building on the previous years’ achievements. The nation’s commitment to the 2040 Vision remains unwavering, focusing on diversification, long-term development, and non-oil sector expansion.

The initial indicators and statistics included in the statement of the budget of the Sultanate of Oman for the current fiscal year 2024 highlight the positive results achieved under the directives of His Majesty the Sultan. These directives focus on accelerating efforts for financial sustainability, adopting financial control plans, and swiftly settling debts. These efforts have tangibly succeeded in steering the financial situation towards stability and enhancing the fiscal position of the country. According to the statement, the public debt decreased to OMR 15.2 billion by the end of 2023, representing 35 percent of the total Gross Domestic Product (GDP).

Oman received a significant vote of confidence from global credit rating agencies in Q4 2023. Standard & Poor (S&P) upgraded Oman’s long-term credit rating from “BB” to “BB+” with a stable outlook. This reflects positive economic changes and growth, particularly in the non-oil sector, indicating the potential for substantial growth from 2023 to 2026. S&P forecasts an average year-on-year GDP growth of 2 per cent until 2026, signifying a positive trajectory for the country’s economic performance.

NBO’s Operating Performance

Given this backdrop, the Bank’s net profit for the year 2023 stood at OMR 58.0 million, compared to OMR 48.2 million for the same period last year, reflecting an increase of 20.4 per cent.



20.4%

Net Profit increase

16.9%

Capital Adequacy Ratio

Net interest income for the year 2023 was OMR 110.5 million, reflecting an increase of 6.8 percent over the corresponding period last year, driven by strong growth in interest income of OMR 242.5 million, an increase of 25.0 percent over the previous year. This was partially offset by higher interest expenses of RO 132.0 million, an increase of 45.9 percent compared to last year.

Fee income for the year 2023 was OMR 35.3 million, compared to OMR 34.7 million last year, registering a growth of 1.8 per cent.

Operating expenses for the year ended 31 December 2023 was OMR 61.9 million, compared to RO 60.5 million for the corresponding period in 2022, an increase of 2.3 per cent. The Bank continues to invest in its people, technology, and infrastructure.

Net Impairment charge for 2023 was OMR 15.7 million, compared to OMR 20.3 million for the corresponding period last year, a decrease of 22.5 per cent.

Gross loans and advances as of 31 December 2023 were at OMR 3.65 billion, reflecting growth of 4.0 per cent over last year. Customer deposits correspondingly were at OMR 3.57 billion, with an increase of 17.3 percent over previous year.

The Bank’s Core Equity and Total Capital Adequacy Ratio stood at 12.1 per cent and 16.9 per cent, respectively.

“The year 2023 coincided with **National Bank of Oman’s (NBO) 50th Anniversary**, marked with a series of initiatives and events bringing together clients, team members and other stakeholders.”

Our Strategy & Organizational Updates

Guided by the vision to “Return to Prominence” and our four core values of authenticity, creating value through connection, relentless pioneering, and pursuing simplicity, our 5-year strategy has yielded strong growth and notable achievements. Through focused efforts, we have safeguarded our liquidity by diversifying the deposit base and strengthening relationships with our partners. Capitalization remains robust, and a streamlined credit underwriting framework has prioritized low-risk exposures. In the realm of value creation, our revenue focus extends across priority areas, fostering cross-functional collaboration and cross-sell initiatives. Cost management and optimization efforts have continued, while strategic partnerships with insurance and fintech players aim to maximize revenue. In the sustainability domain, our brand has earned recognition with distinct attributes, winning awards, including “Bank of the Year Award for 2023 in Oman” by The Banker. Pioneering digital solutions, we lead the market with innovative services and maintain a commitment to employee engagement and development through various programs, such as Tamayuz, Murshid, and Taqdeer, among others, thus reinforcing the importance of our human capital.

Muzn Islamic Banking remains a strategic priority for NBO, with a relaunch in 2023 aimed at contributing significantly to the overall vision of “Return to Prominence.” The renewal includes a refreshed brand positioning. The value proposition is being revamped through the introduction of several new products and variants, accompanied by special launch offers. Additionally, digital banking capabilities have been upgraded with enhanced features on mobile app and Corporate Internet Banking to align with conventional standards, solidifying Muzn’s role in NBO’s strategic resurgence.

NBO is underpinned by its mission to unlock opportunities, delivering growth prospects associated with bringing high-class banking experiences to Oman. Within this context, and contributing to our Omanisation efforts, we appointed Dr Issam Mohsin Al Balushi to our senior management team as Deputy General Manager – Chief Compliance Officer, while we promoted Mustahil Ahmed Al Mamari to Assistant General Manager - Head of Strategy and Transformation, and Dr Ali Salim Al Shekeili to Assistant General Manager – Head of Digital & E-Channels.

Chairperson’s Report 2023

Chairperson's Report 2023

Key Achievements

The year 2023 coincided with National Bank of Oman's (NBO) 50th Anniversary, marked with a series of initiatives and events bringing together clients, team members and other stakeholders. During these celebrations, participants enjoyed a virtual showcase of our 50-year journey highlighting our contributions, the opportunities we unlocked and future plans. The celebration was the biggest digital show of its kind in Oman.

NBO acted as an Issue Manager and one of the Joint Global Coordinators for Abraj Energy Services' Initial Public Offering. The success of this IPO was a proud moment for NBO and serves as a testament to the Bank's leading advisory services backed by a team of passionate people with proven expertise in managing large transactions.

We further affirmed our leading position in the Omani banking sector, announcing our participation as the collection bank for the initial public offering (IPO) of OQ Gas Networks. NBO provided investors with seamless services and easy financial solutions for subscribing to the IPO. The success of this public offering marks a significant achievement in the Bank's journey, confirming the quality of its investment advisory services, supported by experts in managing substantial transactions. It is noteworthy that 97.7% of all subscriptions were completed through the NBO app, reaffirming our commitment to providing a distinctive customer experience.

To further unlock opportunities and support Oman's real estate development sector, we signed an MoU with the Ministry of Housing and Urban Development to provide financing solutions for prospective customers who intend to purchase residential units in Sultan Haitham City.

In its continued efforts to support local corporates, especially industrial enterprises, NBO provided critical support that ultimately led to the successful acquisition and revival of Sohar Steel, a steel manufacturer in Oman, by Jindal Group and Vulcan Investments. The bank's proactive approach and commitment were instrumental in ensuring the success of this transformational deal. The successful revival of Sohar Steel encourages optimism within the local community and aligns with the Sultanate's aspirations for economic growth and diversification.

NBO and Muzn Islamic Banking concluded refinancing a Syndicated USD Term Loan for OQ Gas Networks. This transaction helped us strengthen our relationship with OQ Group and make new inroads for our Islamic window in terms of the growth of quality assets.

We signed an agreement with Oman Oil Marketing Company to provide medium-term financing. The credit facility enabled the expansion of OOMCO's investment portfolio across strategic segments in Oman and supported the group's business and investment activities.

NBO has also entered into a Credit Term Facility Agreement with Oman 70 Holding, a leading local investment company. The agreement entails the NBO providing credit facilities to Oman 70 Holding with the aim of enhancing the company's growth, supporting its project portfolio, and thereby solidifying its position in the local business sector.

Committed to creating a seamless banking experience for our customers, we celebrated the official opening of our new branches in Ibra, Qurayat, Barka and Oman Automotive Association. The reimagined branches marked a significant step in NBO's journey and endeavour to elevate its banking services. Each Branch introduces a 24/7 digital corner offering a variety of services. A multi-purpose service kiosk conveniently addresses customers' needs, including opening new accounts, issuing and renewing debit cards, handling cash and check deposits and withdrawals, processing bill payments, as well as an ATM and CDM. Furthermore, the branch offers a dedicated Sadara Centre. This exclusive service, crafted for NBO's Priority Banking customers, offers personalized assistance and a host of premium banking services.

NBO Muzn Islamic Banking

In celebration of its tenth anniversary, Muzn organized an exclusive event to commemorate with its business partners at NBO's head office in Al Athaiba. The event highlighted the journey of its growth, development, and the achievements it has made in the sector. Founded in 2013, Muzn was the first licensed Islamic banking window in Oman and has been committed to fostering the development of the Sultanate's Islamic Finance sector by providing customers with Shari'a-compliant services that align with their beliefs. To mark this special occasion, Muzn rolled out its new brand identity with an enhanced look and feel. The new identity, aligned with the NBO brand, revamped our values to reflect our strategic goals and aspirations for the Bank and how we communicate our products and services. Muzn showcased substantial growth in 2023, with 47% YoY increase in financing and 58% YoY growth in deposits.

> "NBO Muzn Islamic Banking, the **first licensed Islamic banking window in Oman**, marked its 10th anniversary."

Fulfilling the diverse financial needs of customers across all segments, Muzn signed an agreement with the Oman REIT Fund (Oman REIT), an Omani Real Estate Investment Fund. Under the agreement, Muzn will provide long-term Islamic financing to support the investment activities of Oman REIT Fund and contribute to enhancing its growth on all fronts. Muzn also concluded the refinancing and takeover of a long Term Finance for Salalah Grand Mall.

To empower businesses, Muzn has introduced a Shari'a-compliant Tijarah Account, providing innovative solutions for businesses, small and medium enterprises, charities, and entrepreneurs to attract returns on their surplus cash. The Muzn Tijarah Account operates as a tiered profit-bearing account, allowing companies to earn profits on their deposits.

Muzn has also introduced Corporate Term Wakala Finance for companies, designed to address the diverse needs of businesses. As businesses navigate the complexities of today's economic landscape, the demand for flexible and reliable financial products has increased more than ever. Corporate Term Wakala Finance is an effective tool that provides a comprehensive solution to meet various financial requirements of businesses.

Muzn also launched its Online Direct Debit processing service in 2023 to streamline its corporate clients' payment processes. Utilizing modern technologies, this secure service consists of a wide range of innovative digital solutions that empower companies to monitor, manage, and automate their payments.

People and Learning & Development

Sharing his expertise and experience, our CEO, Abdullah Zahran Al Hinai participated in the 'Building a Fintech Ecosystem Beyond Borders' panel discussion at the Dubai Fintech Summit.

Enriching the dialogue in regional forums, our CEO, Abdullah Zahran Al Hinai, participated as a speaker in the panel discussion on 'Building a Fintech Ecosystem Beyond Borders' at the Dubai FinTech Summit, sharing his insights and experiences in this field.

As part of our commitment to building a high-performance culture based on our core values, we launched our Values Recognition Program. The programme recognises four employees each month who demonstrate one of our four values, celebrating their achievements across the Bank and building a stronger culture together.

We also introduced our dynamic customer experience programme for all branch employees. 'Dhiyafa' is a three-month course focusing on communication etiquette, customer expectations, customer service standards, face-to-face interactions, and all aspects of the NBO customer experience.

We continued its Rawabit Programme, a thorough series of interactive workshops reinforcing its values to deliver superior services. Launched in 2022, the Rawabit Programme focuses on how NBO employees interact with the Bank's values and shape the workplace culture by promoting teamwork and collaboration, embracing change and engaging effectively. The programme also aims to promote professional conduct in the workplace, integrate the Bank's values into day-to-day operations, and create linkages between employees from different regions.

Community Values

Reflecting our ongoing commitment to supporting communities, we have continued our dedicated response to the impact of cyclone Shaheen on Oman's shorelines in 2021. Our unwavering commitment to the Shaheen-affected communities is further emphasized by our total contribution of OMR 1.6 million over the past two years (2022 and 2023). This underscores our steadfast dedication to standing by the communities we serve during challenging times, acknowledging our integral role as part of the social fabric.

Creating value that feeds into the overall progress of Oman, we announced an initiative with the Oman Charitable Organization (OCO) wherein the Bank donated to the non-governmental organization to support national social welfare projects and programmes benefitting children, orphans and disabled people.

In line with our commitment to unlock opportunities for the Omani youth, we continued our steadfast support for skill development in banking and finance. The Bank accepted an impressive 685 interns in 2023, a testament to our dedication to empowering Omani youth with valuable expertise and equipping them with the professional and social skills to enter the job market confidently.

We also sponsored the first Oman Childhood Conference and Exhibition, aligning with Oman Vision 2040's goal of nurturing a promising generation. The Childhood First Association organised this event to raise awareness about childhood issues, showcase their needs and aspirations, and encourage support from various sectors.

Local & Global Recognition

Reaffirming its leadership in the banking sector, the National Bank of Oman (NBO) has won the prestigious 'Bank of the Year Award' for 2023 from 'The Banker', a globally recognised accolade. This award is presented exclusively to the best banks in 120 countries that meet the award's stringent criteria. NBO won this award in recognition of its strategic initiatives, continued growth, and technological advancement in the sector.

"Our brand has earned recognition with distinct attributes, winning awards, including **"Bank of the Year Award** for 2023 in Oman" by The Banker."

As well as being ranked by Forbes among The Region's top 50 Banks in 2023, we also received recognition from the Royal Academy of Management, and awards from the Alam Al Iktisaad Sustainability Awards, MEA HR (Human Resources) & Learning Achievement Awards, International Business Magazine, the World Economic Magazine Awards, Citibank and Global Business and Finance Magazine.

Appreciation

On behalf of the Board of Directors, I would like to thank our customers, shareholders, executive management, and the entire team of NBO for their support and efforts in implementing the Bank's strategy and achieving its goals and objectives.

We would also like to sincerely thank our regulators, the Central Bank of Oman, the Central Bank of the United Arab Emirates and the Capital Market Authority, for their constant support and dedicated efforts to develop Oman's financial industry, especially the banking sector.

We pay tribute to His Majesty Sultan Haitham bin Tarik, under whose visionary leadership and wise guidance Oman continues its steadfast march towards sustainable economic growth and social development.

Amal Suhail Bahwan
Chairperson

Chairperson's Report 2023

Board of Directors

Ms. Amal Suhail Bahwan

CHAIRPERSON

Chairperson of the Executive, Nomination and Remuneration Committee (ENRC)

Ms. Amal Suhail Bahwan is the Vice Chairperson of Suhail Bahwan Group Holding LLC. She has extensive experience in managing companies across the Bahwan Group since 1998. She is also the Chairperson of the Board and the Nomination and Remuneration Committee (NRC) of Al Jazeera Steel Products Co. SAOG and Director and Board Executive Investment Committee member of Oman Oil Marketing Co. SAOG. Ms. Bahwan is also Chairperson of Al Afia Healthcare Development and Investment Company SAOC and Vice Chairperson of National Pharmaceutical Industries Co SAOC and also a Member of the Board of Trustees member for the "Silatech Institution" in Qatar. She was ranked among the list of the most influential women in the Middle East for 2018 by Forbes Middle East, and the list of the most powerful Arab Women for 2017 and Forbes list of most powerful businesswomen in 2023.

Ms. Amal has a Bachelor's degree in Education and a Master's degree in Administration from the Sultan Qaboos University, Oman.

H.E. Sheikh Abdulla Bin Ali Bin Jabor Al Thani

DEPUTY CHAIRMAN

Member of the Executive, Nomination and Remuneration Committee (ENRC)

Has been a Director of the Bank since July 2005 and serves as a member of the Board Executive, Nomination and Remuneration Committee (ENRC). His Excellency is the Chairman of The Commercial Bank (PSQC) in Qatar, a member of the Board of Directors for United Arab Bank, PJSC in UAE and is the owner of: Vista Trading Company, a partner in Al Aham Company, Smart Light and Control Company, Integrated Intelligence Services Company, Falcon Petrol Station, Shaza Hotel and The Diabetes Hospital.

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani holds a Bachelor of Arts Degree, BA in Social Science from Qatar University.

Mr. Hamad Mohammad Al Wahaibi

DIRECTOR

Chairperson of the Credit Committee of the Board (CCB) and member of the Board Executive, Nomination and Remuneration Committee (ENRC)

Mr. Hamad Mohammad Al Wahaibi has been a Director of the Bank since March 2014. He has more than 20 years of experience in areas of investment, assets management, business development and financial sector. He has been a General Manager of investment with the Ministry of Defense Pension Fund.

Mr. Al Wahaibi is also a member of the boards of Renaissance Services Company and Oman Flour Mills Company.

Mr. Al Wahaibi holds a Masters of Business Administration degree, specializing in Finance. He is a Chartered Financial Analyst (CFA) charter holder, Chartered Alternative Investment Analyst (CAIA) charter holder, and has a Certificate in Investment Performance Measurement (CIPM).

Ms Najat Ali Al Lawatia

DIRECTOR

Member of the Credit Committee of the Board (CCB) and member of the Board Executive, Nomination and Remuneration Committee (ENRC)

Ms. Najat Ali Al Lawatia has been a Director of the Bank since March 2017. She holds a Bachelor's degree in Accounting. She is the General Manager of Finance and Investment Performance Monitoring Social Protection Fund and has more than 27 years of relevant experience. She has attended various courses in diverse fields of financial management, audit and investments.

Ms. Najat also represented the Civil Services Pension Fund in various listed and private companies and is currently a Director of Oman International Development and Investment Co. SAOG, Oman REIT Fund and Oman Cement.

Mr. Mohammed Ismail Mandani Al Emadi

DIRECTOR

Chairperson of the Credit Committee of the Board (CCB)

He has been a Director of the Bank since November 2014. He is also a member of the Board for The Commercial Bank (PSQC), a member of the Board of Alternatifbank AS (ABank), Turkey. He has over 30 years of banking experience. Mr. Al Emadi has held a number of key roles at Commercial Bank until 2006, after which he served as Chief Executive Officer of Qatar Real Estate Investment Company QSC up to 2011, and also served as its Director.

Mr. Al Emadi has a Bachelor of Arts Degree in Business Administration and Economics from Holy Names University, California, USA.

Mr. Fahad Abdulrahman Badar

DIRECTOR

Chairperson of the Board Risk and Compliance Committee (BRCC) and member of the Board Audit Committee (BAC)

He has been a Director of the Bank since May 2016. He is also a member of the Board for United Arab Bank, PJSC in UAE since July 2016.

Mr. Badar's career at The Commercial Bank (PSQC) in Qatar spans over 23 years. Prior to his current role as Executive General Manager, International Banking, he held a number of key roles in the wholesale banking, government and international banking, retail banking, and operations divisions.

Mr. Badar holds an MBA from Durham University, UK, and a Bachelor's in Banking and Finance Bangor University, UK.

Mr. Joseph Abraham

DIRECTOR

Member of the Executive, Nomination and Remuneration Committee (ENRC) and Credit Committee of the Board (CCB)

He was appointed as a Board Member in May 2018.

Mr. Abraham is the Group Chief Executive Officer of The Commercial Bank as well as Vice-Chairman of the Board of Directors of Alternatif Bank and a Board Director of the United Arab Bank, UAE. He has extensive banking experience across both developed and emerging markets.Before joining The Commercial Bank in June 2016, he was CEO of ANZ Indonesia (Australia and New Zealand Banking Group) based in Jakarta, a position he served in from 2008 to 2016. Mr. Abraham has an MBA from the Graduate School of Business, Stanford University, California, and has worked in Indonesia, Singapore, Hong Kong, Ghana, UK and India in various country and regional banking roles, with a successful track record covering general management, corporate banking, strategy, product management, acquisitions and integrations.

Brigadier Jamal Said Al Taie

DIRECTOR

Chairperson of the Board Audit Committee (BAC)

Holding a degree of Bachelor of Science (Accounting & Treasury Management) and having almost 30 years of proficient and varied experience in building and leading finance teams.

Presently holding the post of Director General of Financial Affairs of the Royal Oman Police and oversees the accounting, insurance, financial planning and analysis, treasury, audit and budgeting functions at the Royal Oman Police.

He serves as a member on the board of Military and Security Services Pension Fund, The Sultan's School, Oman Automobile Association, Oman International Investment & Development Co. SAOG (OMINVEST) and National Bank of Oman.

Mr. Nabil Hamad Al Mahrouqi

DIRECTOR

Member of the Board Audit Committee (BAC), Board Risk and Compliance Committee (BRCC), and the Board Executive, Nomination and Remuneration Committee (ENRC)

Mr. Nabil Al Mahrouqi holds a Master degree in Business Administration from the University of Strathclyde in the UK And a Bachelor degree in Science from the College of Commerce and Economics from Sultan Qaboos University, majoring in Finance and has more than 12 years of experience in investment in international financial markets, management and financial analysis and research.

Al Mahrouqi has a brokerage license from the Muscat Securities Market and He is a certified analyst in Financial Analysis and Financial Modeling (FMVA) from the Corporate Financial Institute (CFI). Mr. Nabil is currently a member of the Board of Directors of Oman Chlorine Company since 2016 and a member of the Remuneration and Nomination Committee, Muscat National Development and Investment Company (ASAAS) and the Chairman of Audit Committee since 2021, and Al Maha Petroleum Products Marketing company. He also served as a member of the Board of Directors of A'Sharqiya Investment Holding Co. (SAOG) between 2019 -2021.

Al Mahrouqi attended many specialized programs in the field of management, leadership, finance and investment at several international institutions.

Mr. Said Hilal Al Habsi

DIRECTOR

Member of the Board Audit Committee (BAC) and Board Risk and Compliance Committee (BRCC)

Mr. Said has an extensive industry experience in finance and investments, and has spent a considerable amount of time in two of the most prestigious Investment Funds in Oman.

Mr. Said is an Investment Director at Oman Investment Authority (OIA), holds MBA and Bachelor of Finance. Previously, he worked for Oman Investment Fund (OIF), and Ministry of Defense Pension Fund holding various senior posts in Investment and Finance fields.

Said is a certified professional accountant. He is also a Board member Salalah Mills SAOG.

Al Habsi has attended a host of Specialized Executive Management Development Programs at International Institutes of worldwide repute including, IMD, Columbia Business School and Cambridge University Judge Business School. He has also participated in National Leadership Program that is organized by Royal Diwan Court.

With experience of more than 20 years, Al Habsi has extensive in-depth knowledge of global financial markets and investments.

Mr. Padmanabhan Ananthan

DIRECTOR

Member of the Board Audit Committee (BAC) and Board Risk and Compliance Committee (BRCC)

Ananthan is Chartered Accountant and has more than 38 years of professional experience in manufacturing and construction industries. He is presently the Managing Director – Finance & Corporate Services of Bahwan Engineering Group.

During his 29 years with Bahwan Engineering Group, he has worked closely on investment decisions in new ventures, particularly in the Omani power and water sector. His areas of specialization are finance, taxation, budgeting, management reporting and investment analysis.

He has served on the Boards and Audit Committees of Al Batinah Power Co SAOG (from 2010 to 2018) and Sharqiyah Desalination Co SAOG (from 2013 to 2018).

Senior Management

Abdullah Zahran Al Hinai
CHIEF EXECUTIVE OFFICER

Hassan Abdul Amir Shaban
GENERAL MANAGER
Chief Government Banking & Alliance Officer

Tariq Atiq
GENERAL MANAGER
Chief Retail & Digital Banking Officer

Sulaiman Said Al Lamki
GENERAL MANAGER
Chief Risk Officer

Srinivasaraghava Varadachari Giridhar
GENERAL MANAGER
Chief Financial & Operating Officer

Abdul Karim Zahran Zahir Al Hinai
DEPUTY GENERAL MANAGER
Chief Information Officer

Salah Abdullah Al Sharji
DEPUTY GENERAL MANAGER
Chief Internal Auditor

Abdullah Mohamed Al Jabri
DEPUTY GENERAL MANAGER
Head of Asset Quality Management

Dr. Issam Mohsin Al Balushi
DEPUTY GENERAL MANAGER
Chief Compliance Officer

Pullattu Radhakrishnan Anil Kumar
DEPUTY GENERAL MANAGER
Head of Corporate Banking

Salima Obaid Issa Al-Marzoqi
ASSISTANT GENERAL MANAGER
Chief Islamic Banking Officer

Ali Mustafa Al Lawati
ASSISTANT GENERAL MANAGER
Head of Private Banking & Segments

Musallam Suhail Kashoub
ASSISTANT GENERAL MANAGER
Head Retail Operations & General Services

Mohammed Yahya Al Jabri
ASSISTANT GENERAL MANAGER
Head of Global Transaction Banking

Maha Saud Al Raisi
ASSISTANT GENERAL MANAGER
Head of Product

Aliya Ali Al Balushi
ASSISTANT GENERAL MANAGER
Head of Talent & Performance Management

Mohamed Abdullah Al Dhahab
ASSISTANT GENERAL MANAGER
Head of Large Corporates

Ghadeer Iqbal Al Lawati
ASSISTANT GENERAL MANAGER
Head of Project Finance & Syndication

Mustahil Ahmed Al Mamari
ASSISTANT GENERAL MANAGER
Head of Strategy & Transformation

Dr. Ali Salim Al Shekeili
ASSISTANT GENERAL MANAGER
Head of Digital & E-Channels

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Management Discussion and Analysis Report 2023

TOTAL ASSETS (RO Bn)

		CAGR
2023	4.8	
2022	4.3	
2021	4.1	
2020	3.6	9.90%

LOANS & ADVANCES (RO Bn)

		CAGR
2023	3.5	
2022	3.4	
2021	3.1	
2020	2.9	6.58%

CUSTOMER DEPOSITS (RO Bn)

		CAGR
2023	3.6	
2022	3.0	
2021	2.9	
2020	2.5	12.24%

TOTAL NETWORTH (RO Bn)

		CAGR
2023	0.7	
2022	0.6	
2021	0.6	
2020	0.5	8.35%

OPERATING INCOME (RO Mn)

		CAGR
2023	145.9	
2022	138.2	
2021	123.4	
2020	117.0	7.64%

NET PROFIT (RO Mn)

		CAGR
2023	58.0	
2022	48.2	
2021	30.3	
2020	18.1	47.32%

OPERATING PROFIT (RO Mn)

		CAGR
2023	84.0	
2022	77.7	
2021	59.9	
2020	53.1	16.47%

NET INTEREST INCOME (RO Mn)

		CAGR
2023	110.5	
2022	103.5	
2021	91.6	
2020	90.9	6.74%

NET INTEREST MARGIN (NIM)

2020	2021	2022	2023
2.8%	2.6%	2.7%	2.7%

NON-PERFORMING LOANs RATIO

2020	2021	2022	2023
5.6%	5.3%	4.9%	4.5%

PROVISION COVERAGE RATIO

2020	2021	2022	2023
94.2%	90.1%	93.4%	99.5%

NON-INTEREST INCOME/OPERATING INCOME

2020	2021	2022	2023
22.3%	25.8%	25.1%	24.2%

RETURN ON EQUITY

2020	2021	2022	2023
3.4%	5.6%	8.3%	8.9%

RETURN ON ASSETS

2020	2021	2022	2023
0.5%	0.8%	1.1%	1.3%

CORE EQUITY TIER 1 & CAPITAL ADEQUACY RATIO

	2020	2021	2022	2023
CAR	16.4%	15.8%	16.9%	16.9%
CET 1	12.0%	11.8%	11.9%	12.1%

COST TO INCOME

2020	2021	2022	2023
54.6%	51.5%	43.8%	42.4%

Management Discussion and Analysis Report 2023

Overview

In 2023, National Bank of Oman (NBO) delivered strong financial and operational performance, growing net profit by over 20 percent. We generated further positive momentum in our strategic 'Return to Prominence' journey, which has yielded strong growth and delivered value to all our stakeholders. We further reinforced our financial strength and flexibility by safeguarding liquidity, maintaining robust capitalization and optimizing costs, while continuing to invest in our people, brand and digital technology.

Our achievements in bringing value and high-class banking experiences to Oman have led to a significant growth in our retail, Islamic and commercial customer base. We are also proud that our performance and brand was recognised by the The Banker, which named NBO as 'Bank of the Year for 2023 in Oman'.

We remained highly committed to serving our shareholders and customers, engaging positively with our business partners, regulators and employees, and playing a proactive role in supporting Oman's economic development.

Operating Environment

The diversification of the economy has continued steadily, with non-petroleum related sectors continuing to increase. Inflation has remained at modest levels and oil prices, while fluctuating, were relatively robust at expected levels throughout 2023. The Government of Oman has continued to effectively manage the Sultanate's debt position, while encouraging investment, diversification and digitization in pursuit of the Oman Vision 2040 goals.

In response, international ratings agencies upgraded Oman's Government and key institutions, including NBO, to one notch below investment grade. Coupled with the budget set by the Government, which includes a significant range of investment projects, this provided a positive environment for the banking sector. We anticipate these trends will continue into 2024 and that the generally positive outlook for the sector will be maintained.

Financial & Operating Performance

In 2023, NBO continued to build on and accelerate improvements recorded since the beginning of our strategic plan period i.e. 2021. Our strong performance through the year 2023 delivered significant progression across all our key metrics as the positive development of the Omani economy and the implementation of our strategic plan gained further traction. Net Profit for the year rose to OMR 58.0 million, compared to OMR 48.2 million in 2022, an increase of 20.4 percent.

The growth in the volume of deposits exceeded market with Customer deposits grew strongly to OMR 3,573 million, a 17.3 percent increase over 2022. The growth in loans is in line with markets with gross Loans and advances rose to OMR 3,654 million, an increase of 4.0 percent over 2022. High interest rate environment as resulted in increase in both yields and cost of funds, despite challenges NBO managed to maintain stable NIMs that drove a growth in net interest income, which rose to OMR 110.5 million, an increase of 6.8 percent compared to 2022.

Our operating costs increased marginally in 2023 to OMR 61.9 million from OMR 60.5 million in 2022, an increase of 2.3 percent. The Bank continue to invest in people, infrastructure and technology to serve our customers better. Nevertheless, the costs remained in line with our plans and driven by the solid improvement in operating income, our cost to income ratio improved once again to 42.4 percent at the end of 2023, from 43.8 percent at the end of 2022.

Our robust risk management practices, together with careful selection of the segments in which we lend and continued diligence in recovery, resulted in a further reduction in net impairment for the year 2023 to OMR 15.7 million, compared to OMR 20.2 million for the year 2022, a decrease of 22.5 percent.

With an improved remedial measures Bank's NPL ratio is at 4.5 percent in 2023 compared to 4.9 percent for 2022. NPL coverage ratio is also improved to 99.6 percent in 2023 compared to 93.4 percent in 2022.

The Bank's Core Equity and Total Capital Adequacy Ratio remained comfortably above regulatory minimum stipulated by Central Bank of Oman at 12.1 percent and 16.9 percent respectively, demonstrating strong levels of financial health and stability. Bank's prudential ratios under Basel III norms such as Liquid coverage ratios, Net Stable Funding ratios and leverage ratios were 384.4 percent, 115.2 percent and 12.7 percent respectively.

Retail & Digital Banking

Our retail operations continued to be driven by our strategic priority to grow and sustain our business by investing in customer centric services, processes and infrastructure, and delivering competitive offerings while maintaining uncompromising standards of regulatory compliance and best practice.

We were also delighted to be able to support the highly successful OQ Gas Networks (OQGN) IPO as the leading collection bank. We were able to provide prospective investors with a seamless and advantageous subscription experience. NBO offered a comprehensive digital solution through its App, providing an innovative platform to ensure a convenient and efficient fully digital subscription process. Our customers enjoyed instant 24/7 subscription access facilitated by direct connectivity with Muscat Clearing and Depository (MCD), contributing to the effective execution of the IPO and adding to our track record of successful IPO collections. Significantly, 97.7% of all subscriptions were completed through the NBO app, reaffirming our commitment to providing a distinctive customer experience.

We continued to offer tailored accounts to customers both at the beginning of their banking journey and those who have reached retirement, aligning them with 2023 initiatives from the Government to assist and support these groups. NBO's Retiree Account serves as a comprehensive financial solution and is designed to assist customers in their financial planning, offering advisory services both before retirement and facilitating saving and wealth creation solutions after retirement.

Similarly, we have positioned our established Children's Account offering to support the Government's announcement of monthly child benefits. Through this account, we aim to provide a seamless and accessible savings solution for fathers and guardians and contribute to securing their children's financial future. It also encourages children to develop a familiarity with banking and responsible financial management as they transition into adulthood.

During 2023, we continued to invest in our infrastructure to enhance our customer experience, relocating several branches to more convenient locations and modernising and refurbishing others. We introduced new facilities to support the ongoing drive to digital banking by our customers and complement the traditional NBO in-branch experience by introducing digital corners. The digital

> **"**During 2023, **we continued to invest in our infrastructure** to enhance our customer experience.**"**

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corners, available at branches of Central Business District at Ruwi, Bowsher, Oman Automotive Association, Ibra, Bahla, Qurayyat, New Salalah, Suhar and our head office, offer a 24/7 services, including a multi-purpose service kiosk conveniently addresses customers' needs, allowing the opening of new accounts, issuing and renewing debit cards, handling cash and cheque deposits and withdrawals, processing bill payments, as well as an ATM and CDM.

To provide further value to our retail customers, we upgraded our suite of credit cards, unlocking an even wider variety of features and exclusive benefits. The Visa Infinite, Visa Platinum, Visa Gold and newly added Visa Signature Credit Card, were all redesigned to suit the lifestyle of their users, including the frequent travellers among them. Our credit cards now offer additional benefits such as easy payment plans, travel and medical insurance, concierge services, airport lounge access, monthly cashback on digital entertainment channels, and access to two-for-one offers in domestic and worldwide destinations through Visa's "Xperience" app.

In order to remain competitive and continue to offer value-adding benefits to customers, we relaunched the NBO Rewards Programme expanding its benefits to a 360-degree banking reward programme that provides customers points for their everyday banking activities. This programme recognises and rewards customers for utilising the various services of the bank such as card transactions, deposit increments, salary transfers to NBO, NBO app transactions, and the acquisition of additional products from NBO. Rewards Program points can be earned and redeemed across a wide range of products and services, offering seamless and attractive redemption options while delivering maximum value for customer from their earned points.

We continued to expand the services available on NBO App. The latest feature is the facility to apply to top-up personal loans, enabling our active and employed customers easy and efficient access to additional loans through a user-friendly and streamlined digital process.

Adding convenience to our Private and Sadara Priority Banking customers, we partnered with a local company to offer an exclusive airport transfer service.

We participated in COMEX 2023, demonstrating the latest advances in financial technology and the Bank's capabilities, including our first-in-the-country self-service kiosk, NBO Mobile App, Merchant App and Muzn App. Visitors of the corner could open new accounts via the kiosk and avail of card services and other benefits.

Corporate Banking

In the Corporate banking sector, we also continued to enhance our digital offering and increase the range of services to our corporate clients with a comprehensive suite of services from traditional banking facilities through to flexible financing options, complex transactional advice and banking facilities.

In its continued efforts to support local corporates, especially industrial enterprises, NBO provided critical support that ultimately led to the successful acquisition and revival of Sohar Steel, a steel manufacturer in Oman, by Jindal Group and Vulcan Investments.

NBO and Muzn Islamic Banking concluded refinancing a Syndicated USD Term Loan for OQ Gas Networks. This transaction helped us strengthen our relationship with OQ Group and make new inroads for our Islamic window in terms of the growth of quality assets.

We signed an agreement with Oman Oil Marketing Company SAOG (OOMCO) to provide a medium-term financing. The credit facility will enable the expansion of OOMCO's investment portfolio across strategic segments in Oman and support the group's business and investment activities.

New call account deposits were attracted from several companies through our online banking platform, and we also increased liability balances from a private utility company, Phoenix Power, with NBO leveraging its role as agent and collections bank to sanction secondary market loan purchases from a Japanese lender for this customer.

Furthermore, we joined the Buna Payment System, an established cross-border and multi-currency payment system that allows customers to send and receive payments across the Arab region and facilitates remittances, trade and commerce between countries in the Arab World.

To foster collaboration in financial technology, we signed an agreement with Mamun Company, a provider of advanced financial technology solutions. We also signed an agreement with Nesto Hypermarket to provide them with global transaction banking services.

Reaffirming our commitment to delivering a seamless and value-added experience for our customers, Global Transaction Banking launched a Remote Deposit Cheque solution (RDC). Offered to our corporate customers with a large number of cheques, RDC will help clients transmit cheque images from their office to NBO for clearance, eliminating the need to visit a branch.

More broadly, we continued efforts to add value for our corporate customers and unlock growth opportunities. We hosted our Global Economic Outlook 2024 event designed to empower the Bank's cooperate customers by sharing valuable insights into key economic trends, explore potential challenges and opportunities, and provide a comprehensive overview of the economic landscape for 2024 and beyond. We also organised an Online Trade Platform Training Workshop to offer platform familiarisation and empower them to make the most of our trade channels.

Muzn Islamic Banking

In addition to the Bank's 50th anniversary, in 2023 we also celebrated the 10th anniversary of the introduction of our Muzn Islamic banking services. Established as the first licensed Islamic banking window in Oman, Muzn has made robust progress, delivered excellence and contributed to the growth of the Islamic banking sector in Oman.

In 2023, we launched the Muzn Tijarah Account, providing a unique solution for our valued customers. This Shari'a-compliant product is designed to offer corporates, SMEs, charity organisations, and entrepreneurs an innovative solution to generate compelling returns on their excess cash reserves. Muzn Tijarah operates as a tiered profit-earning account allowing businesses to earn on every riyal deposited. As the deposited amount increases, so does the expected profit rate. In addition to the monthly returns, Tijarah account holders will also receive access to Muzn's Corporate Internet Banking (CIB) platform for conducting banking transactions efficiently and conveniently.

"In addition to NBO's 50th anniversary, in 2023 **we also celebrated the 10th anniversary of Muzn.**"

In parallel with the development of our mainstream Children's Account, we introduced the Muzn Kids Wakala account to support our customers in ensuring the financial security of their children. The account provides competitive expected returns of 2 percent per annum paid into the account monthly.

Furthermore, we introduced the new Flexi Wakala Saving Account, a financial solution designed to empower individuals seeking to save for their future or retirement whilst adhering to Shari'a principles. Our Flexi Wakala Saving Account offers competitive incremental profit rates, which increase depending on the level of deposits and can reach up to 3 per cent, and uniquely allows account holders to access their funds at any time, without incurring fees.

We also introduced a complementary structured deposit offering, enabling Flexi Wakala account holders to divert a proportion of their deposits to be invested in a one-year Wakala Investment fixed deposit at an elevated rate, potentially yielding up to 6 percent in profit.

Muzn continued to unlock opportunities for its customers by migrating all card services to Visa, the world's largest payment network. In addition to providing an enhanced banking experience with a Visa card, customers can now enjoy exclusive lifestyle and travel benefits, dining deals, preferential rates and discounts at over 70 million merchant locations worldwide whilst proudly adhering to Shari'a law practices.

In a strategic move aimed at delivering enhanced value and financial protection, we established a partnership with the local Takaful companies and introduced a diverse range of Bancatakaful products. The Bancatakaful products offered to our customers by Takaful Oman encompass Shari'ah-compliant plans such as My Health Plus, Takaful Elite Life and Motor Takaful. Through this collaborative effort, we aim to strengthen our market position and provide comprehensive financial solutions to our customers.

Fulfilling the diverse financial needs of customers across all segments, Muzn signed an agreement with the Oman REIT Fund (Oman REIT), an Omani Real Estate Investment Fund. Under the agreement, we will provide new long-term Sharia-compliant financing of OMR 30 million to Oman REIT through Muzn. This customised financing facility aims to support Oman REIT's real estate investment activities and contribute to the company's overall growth. Muzn also concluded the refinancing and takeover of long-erm finance for Salalah Grand Mall.

Muzn signed a Term Wakala agreement with national carrier, Oman Air, providing long-term financing to secure assets with Shari'a compliant financial solutions and provide greater flexibility required in the rapidly changing air transport market.

During the last quarter of the year, Muzn announced the Muzn Cashback Campaign, an exciting opportunity for salaried employees across Oman to enjoy exclusive rewards and Shari'a-compliant products. Under this campaign, customers can enjoy a 10 percent cashback on their new salary credits, with a cashback limit of up to OMR 500.

Muzn also launched its Online Direct Debit processing service in 2023 to streamline its corporate clients' payment processes. Using cutting-edge technology, the secured service comprises a range of innovative digital solutions, which enable companies to monitor, control, manage and automate their payments efficiently.

Government Banking

As one of Oman's leading domestically based financial institutions, our relationship with government institutions remains key. We continue to support them through knowledge-sharing, providing innovative financial solutions and contributing to the efficiency and financial capabilities of Oman's ministries and agencies, as well as supporting Oman's economic and social development policies.

Financial services provided to Government entities continued and included solidifying a strategic partnership that will drive economic growth and development in Oman; we signed a Credit Term Facility Agreement with a holding company. The credit term facility is designed to enable the company to continue its investments in various key sectors and play a significant role in the further diversification and economic development of the Sultanate of Oman.

To further unlock opportunities and support Oman's real estate development sector, we signed a MoU with the Ministry of Housing and Urban Development to provide financing solutions for prospective customers who intend to purchase residential units in Sultan Haitham City.

People

A key aspect of our strategic drive to deliver sustainable growth is to ensure we have the capabilities, skills and experience to effectively serve our customers and their evolving requirements. In 2023, we continued to invest in our peoples' skills, knowledge and personal development. Overall, our staff undertook a total of over 11608 man-days of training across 300 different programs.

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We have achieved over 93 percent Omanisation, of which 41 percent are female. In our branches, all our employees are Omani and we are committed to developing the next generation of finance professionals and business leaders, having taken 685 interns into our business during 2023.

An important component of our people-related initiatives was the internal leadership development programme established in 2021. In 2023, we saw the first fruits of that core programme as we graduated a number of participants into management positions. Further appointments will follow from the initial cadre of participants and subsequent intakes, establishing a sustainable leadership succession pipeline.

In building our customer centric culture, over 240 employees also completed our Rawabit Program, which focuses on embedding our values and shaping the workplace culture by promoting teamwork and collaboration, embracing change and engaging effectively. The programme also aims to promote professional conduct in the workplace, integrate the Bank's values into day-to-day operations and create linkages between employees from different regions.

Resonating with the value of 'pursuing simplicity', the Bank implemented the 'Lean Management' programme for more than 250 employees from various departments, providing them with the necessary capabilities to simplify multiple internal processes.

We also continued to upskill our retail team through our internal training and development arm, the Academy of Excellence, including programmes like the Sales Star training which was developed internally to help team members from across different divisions of the bank to further refine their skills to promote and deliver the bank's innovative products and services. The Academy of Excellence has been using a Cloud-based Learning Management System, which is an eLearning platform, to deliver quality technical and soft skills courses for staff members. These online training opportunities allow NBO employees from across different divisions to benefit from a consistently high standard of teaching and further refine their knowledge and skills across a range of bank-related subjects.

Further fostering a culture of continuous development and stimulating professional growth, the Academy of Excellence, recognised 176 employees at an award ceremony. The event celebrated those who completed a range of professional and academic certifications and in-house training programmes. Additionally, it highlighted employees who significantly contributed to guiding and mentoring their colleagues.

We are equally committed to continuous employee development and upskilling in our Islamic Banking window, Muzn has enrolled staff members in the Universal Banker Certificate Program. The training programme provides frontline banking professionals with the instruments and skills they require to deliver a seamless, convenient, and effective customer experience.

Seeking to strengthen employee engagement, we hosted our annual Kids Carnival, a tradition since 2017. The event, which took place at NBO's head office, was exclusively dedicated to employees and their families.

Moreover, we continued with several other engagement initiatives throughout the year. These included GM Connect, a platform for employees to connect with General Managers. Supporting our value of creating value through connection, the initiative serve as a platform of knowledge and experience exchange. Other initiatives included football and bowling tournaments, and Café Thursday.

"In 2023, **we continued to invest in our peoples' skills, knowledge and personal development.** Overall, our staff undertook a total of over 11608 man-days of training across 300 different programs."

Corporate Responsibility

As a responsible corporate citizen and prominent institution in Oman's commercial sector, NBO contributes actively to the development of the Sultanate's society.

Projects in 2023 included a partnership with the Civil Defence and Ambulance Authority to mark World Civil Defence Day and raise awareness of the importance of resilience and best practices in defence risk management for the sake of the general well-being of Omani citizens and residents.

NBO also played an active role in supporting Omani culture, including sponsorship of the Jabal Al Akhdar Festival which drew a substantial number of participants from various segments of society to celebrate both the natural beauty and rich cultural heritage of the Sultanate. The event also served as an effective platform for business owners, with approximately 44 Omani small and medium sized enterprises (SMEs) participating in the festival.

In keeping with our mission to give back to its community, we continued our Thursday Café, an initiative to promote local food and beverage businesses at the bank's headquarters. The aim is to further engage NBO employees, while small and medium sized enterprises (SMEs) in Oman are able to showcase and sell their culinary highlights as NBO is keen to work together with local partners to unlock opportunities for all.

As another part of our commitment to give back to its communities, we launched Shahr il Atta, the Bank's annual campaign held during the Holy month of Ramadan and Eid al-Fitr. We utilised this community outreach programme to distribute food hampers to families in need. We also organised a Ramadan Bake Sale at the Bank's head office, bringing the team together from across the Bank network to raise charity funds in collaboration with Nidaa Charity.

Celebrating the GCC Endowment Week, Muzn signed a MoU with the Ministry of Endowment and Religious Affairs to support the Charitable Endowment Fund for Mosques and Quran Schools in Oman.

The bank will continue to seize opportunities and work together with key partners to unlock opportunities that drive progress, prosperity and create value for Oman and its people.

Local and Global Recognition

Reaffirming our leadership in the banking sector, NBO has won the prestigious 'Bank of the Year Award in Oman' for 2023 from 'The Banker', a globally recognised accolade. This achievement reflects the continuous growth achieved by the Bank over the past few years. It confirms our commitment to enriching the banking sector in Oman with the latest digital solutions and distinctive products, implementing strategic initiatives that enhance growth and workplace culture, facilitating processes, procedures, and other aspects of our operations that directly affect the Bank's performance and enrich our customers' experiences.

Notably the Bank was awarded the 'Best Mobile Banking App Oman 2023' by the Global Business and Finance Magazine, recognising our NBO app as a class-leader in the industry endorsing our digital transformation strategy and innovation in providing customers with the latest technologies and seamless solutions and experiences that meet their needs.

At the OER Live DX Oman 2023 event, we were also honoured with the 'Leaders in Digital Transformation Award' in recognition of our role in driving digital transformation in Oman's financial sector and our dedication to delivering cutting-edge digital banking solutions that offer customers seamless banking experience.

Recognizing its commitment to excellence in all operations and the progress made as we have executed our Return to Prominence strategy, we were named Best Performing Company in the Large Capital category at the Oman Alam al-Iktisaad Wal A'mal (AIWA) Awards.

> "As another part of our commitment to give back to its communities, **we launched Shahr il Atta, the Bank's annual campaign held during the Holy month of Ramadan and Eid al-Fitr.**"

For the sixth consecutive year, NBO won Citibank's Straight Through Processing (STP) Excellence award underscoring the bank's commitment to excellence in the payments sphere. The award highlights the bank's high efficiency in formatting foreign currency (USD) payments, particularly in Treasury Payments and Commercial Payments, of which NBO managed to successfully achieve an STP rate of over 99.9% and 98.5% respectively.

> "Reaffirming our leadership in the banking sector, **NBO has won the prestigious 'Bank of the Year Award in Oman'** for 2023 from The Banker"

International Business Magazine recognised the excellence and value of our reignited brand identity, launched in 2022, awarding the Bank 'Best Brand Identity in Oman 2023' and reaffirmed our purpose-driven and value-oriented communications strategy.

In recognition of its achievements in digital capacity building, the NBO's Academy of Excellence recently won the 'Best Practices for Internal eLearning' Award. The accolade was presented by MEA HR (Human Resources) & Learning Achievement Awards. This acknowledgment highlights the bank's efforts to offer innovative and rewarding upskilling opportunities for its employees.

We were awarded 'Excellence in Sustainability in Banking and Finance' in the Alam Al Iktisaad Sustainability Awards, ranked by Forbes among The Region's Top 50 Banks in 2023 and received recognition for our partnership with Etimad Programme by the Royal Academy of Management.

Furthermore, Muzn was named the 'Best Islamic Window 2023' by the World Business Outlook. This remarkable achievement is a testament to the Bank's unwavering leadership and exceptional performance in the Islamic finance industry.

Outlook 2024 and beyond

Looking forward, we are optimistic about the continued health of the Omani economy and the commercial environment in which we operate, driven by the Government's ongoing programme of fiscal discipline and targeted investment and diversification. The Omani Government's budget for 2024 will continue to reduce national debt while generating further opportunities for investment and value creation for the banking sector. We see continuing growth in the non-petroleum sectors of the economy and average oil prices being maintained at expected levels in the $80-90 range, with overall real GDP growth expected to increase over 2023 to 2.7 percent.

During 2023, we generated strong momentum in accelerating the execution of our strategy and we intend to maintain our focus and discipline to sustain this through 2024. The outlook for interest rates continues to be uncertain, but we will remain vigilant and responsive to ensure we remain competitive while maintaining financial strength and focusing on asset quality.

We will continue to leverage and expand the range of products and services to retail and commercial markets, utilising new technology and digital channels to support convenience and transparency for our customers and the efficiency of our operations. We remain strongly committed to investment in our people, building on the success we saw in 2023 in upskilling our work force and establishing a pipeline of future leaders, ensuring that they have the capabilities and knowledge to deliver our evolving products and serve our customers as effectively as possible. Through the delivery of high-class banking services, our investment in people and commitment to partnership with our stakeholders, we will continue to contribute to Oman's economic growth and diversification.

Finally, as we travel towards the latter stages of our five-year Return to Prominence strategy, towards the end of 2024 we will take stock of our progress and consider how we can build on our achievements since 2021, grow our business still further and take our performance to even higher levels.

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Corporate Governance Report 2023

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Private and confidential
Our ref.: aud/km/aa/14910/24

Agreed upon procedures on Code of Corporate Governance ("the Code") of National Bank of Oman SAOG

To the Board of Directors of National Bank of Oman SAOG

Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting National Bank of Oman SAOG ("the Bank") for evaluating the Bank's compliance with the Code of Corporate Governance of Capital Market Authority ("CMA"), as prescribed in the CMA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code"). Our report is solely for the purpose of assisting the Bank in complying with the CMA requirements and may not be suitable for any other 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.

Practitioners' Responsibilities (continued)

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.

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 our engagement letter dated 11 January 2022:

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.

Kenneth Macfarlane
11 March 2024

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Corporate Governance Report 2023

The corporate governance framework of the National Bank of Oman (NBO, or the Bank) applies the principles set out in the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (CBO), the Capital Market Authority (CMA) Code of Corporate Governance (the Code) as amended for Muscat Stock Exchange Company (MSX) listed companies and the Commercial Companies Law (CCL) of Oman. The Board of NBO supports the fostering of a healthy and effective governance culture across the Bank and is committed to the highest standards of corporate governance. Accordingly, the Board and its Committees continuously evaluate and improve their governance practices, policies and procedures to sustain stakeholder value and trust and maintain a high level of business ethics.

In accordance with the directives of the CMA Code, this corporate governance report is included separately in the annual report, which is duly certified by the statutory auditors.

Board of Directors

The Board of Directors is responsible for the overall direction, supervision and control of the Bank. Specific responsibilities of the Board include approving the business objectives of the Bank, approving the strategies and policies for achieving these objectives, and continually reviewing the performance of the Bank in relation to its stated objectives and adherence to policies.

Appointment of Directors

The Board comprises 11 members who were elected by the shareholders on March 19, 2023 for a period of three years. The current term of all the Directors will expire at the end of March 2026.

Process of nomination of the Directors

The nomination of Directors is as per Articles 6 of the Bank's Articles of Association and also in accordance with CBO, CMA, Ministry of Commerce, Industry and Investment Promotion (MOCIIP), CCL and MSX regulations. The Executive, Nomination and Remuneration Committee (ENRC) reviews the appropriate skills and characters required of the Board members and recommends suitable names to the shareholders for election. Shareholders retain the power to elect any candidate to the Board irrespective of whether the candidate is recommended by the Board or otherwise.

Characteristics and core competency of the Board

Members of the Board and its committees bring appropriate knowledge, experience and independent judgment to Board meetings and in passing resolutions. The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities over the Executive and Senior Management of the Bank.

Corporate Governance

Information given to the Board

The Directors are given appropriate and timely information so they can maintain full and effective control over strategic, financial, operational, risk, compliance and governance issues. The information provided to the Board is as per the guidelines provided in the Code.

On appointment, each Director receives information about the Bank in an induction pack and is advised of the legal, regulatory and other obligations devolving upon a Director of listed companies.

Composition of the Board

No Director is a member of the Board of more than four public joint stock companies or banks whose principal place of business is the Sultanate of Oman or is a Chairman of more than two such companies.

The following tables show the position of each of the current Board members in line with the Code's requirements:

Table (1)

Name of Director	Representing	Category of the Director*
Ms. Amal Suhail Bahwan - Chairperson	Herself	NEX-NIND
Sheikh Abdulla Bin Ali Bin Jabor Al Thani - Deputy Chairman	Himself	NEX-NIND
Mr. Hamad Mohammed Al Wahaibi - Director	Himself	NEX-IND
Mr. Mohammed Ismail Mandani Al Emadi - Director	Himself	NEX-NIND
Brigadier Jamal Said Al Taie - Director	Himself	NEX-IND
Mr. Fahad Abdul Rahman Badar - Director	Himself	NEX-NIND
Mrs. Najat Ali Al Lawatia - Director	Herself	NEX-IND
Mr. Joseph Abraham - Director	Himself	NEX-NIND
Mr. Said Hilal Al Habsi - Director	Himself	NEX-IND
Mr. Padmanabhan Anantha - Director	Himself	NEX-NIND
Mr. Nabil Hamad Al Mahrouqi – Director	Himself	NEX-IND

*NEX: Non-Executive Director, IND: Independent, NIND: Non-Independent

As per the CMA guidelines, four Board members are currently considered as independent which complies with the required minimum number of independent directors as stated in the Code.

Corporate Governance

Table (2)

Name of Director	Other Board Committees Membership*	No. of other S.A.O.G Boards memberships	No. of Board meetings attended	Attended last AGM on 19th March 2023
Ms. Amal Suhail Bahwan Chairperson	ENRC	2	7	Yes
HE Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairperson	ENRC	NIL	7	Yes
Mr. Mohammed Ismail Mandani Al Emadi	CCB	NIL	7	Yes
Mr. Hamad Mohammed Al Wahaibi	ENRC / CCB	3	6	Yes
Brigadier Jamal Said Al Taie	BAC	1	5	N/A*
Mr. Fahad Abdul Rahman Badar	BAC / BRCC	NIL	7 (1 by proxy)	Yes
Mrs. Najat Ali Al Lawatia	ENRC / CCB	3	6	Yes
Mr. Joseph Abraham	ENRC / CCB	NIL	7	Yes
Mr. Said Hilal Al Habsi	BAC / BRCC	1	6	Yes
Mr. Padmanabhan Ananthan	BAC / BRCC	NIL	6	N/A*
Mr. Nabil Hamad Al Mahrouqi	BRCC / ENRC / BAC	2	7	Yes

*Not a Director at the time

ENRC: Executive, Nomination and Remuneration Committee / BAC: Board Audit Committee / CCB: Credit Committee of the Board / BRC: Board Risk Committee.

Number and dates of Board meetings

NBO held 7 Board meetings during 2023: January 30, March 19, April 30, July 26, September 6, and October 26. The longest interval between two meetings was 71 days which complies with the regulatory maximum interval requirement of 120 days.

Remuneration to Board and Top Management

The sum of the benefits (e.g. salaries, perquisites, bonuses, gratuity, pension, etc.) paid to the currently active top five senior managers of the Bank in 2023 was OMR 2,060,327/=.

Staff service contracts are two years for expatriate officers and determined by the prevailing labor laws for Omanis. The notice period is between one to three months for existing contracts.

As all members of the Board are Non-Executive Directors no fixed remuneration or performance linked incentives are applicable. The Non-Executive Directors are paid sitting fees and reimbursement of expenses for attending the Board and Committee meetings. In addition to the sitting fees paid, the total proposed remuneration for the Directors in 2023 is OMR 300,000 subject to the Annual General Meeting approval on March 27, 2024.

The details of the sitting fees paid or accrued for payment during 2023 are as follows:

Table (3)

Name of the Director	Total fees OMR*	Remarks
Ms. Amal Suhail Bahwan	7,650	
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairman	7,650	
Mr. Mohammed Ismail Mandani Al Emadi	10,000	
Mr. Hamad Mohammed Al Wahaibi	10,000	
Mr. Fahad Abdul Rahman Badar	10,000	
Mrs. Najat Ali Al Lawatia	10,000	
Mr. Joseph Abraham	10,000	
Mr. Said Hilal Al Habsi	10,000	
Mr. Nabil Hamad Al Mahrouqi	10,000	
Brigadier Jamal Said Al Taie	7,950	Elected 3/2023
Mr. Padmanabhan Ananthan	10,000	Elected 3/2023
Mr. Rahul Kar	3,150	Directorship ended 19/3/2023
Dr. Ghazi Nasser Al Alawi	2,550	Directorship ended 19/3/2023
Total	**108,950**	

*The maximum sitting fees amount per Director in a financial year shall not exceed OMR 10,000.

The total training, accommodation and travel expenses related to Board Members during 2023 is OMR 85,060.

Board Committees

The Board of Directors has four standing committees: Executive, Nomination and Remuneration Committee (ENRC), the Board Audit Committee (BAC), the Board Risk and Compliance Committee (BRCC) and the Credit Committee of the Board (CCB).

Board Audit Committee (BAC):

The BAC comprises of five members, three of whom are independent, and two are non-independent. The committee held nine meetings in 2023.

The composition of the BAC and members' attendance at meetings are given in the table below:

Table (4)

Name	Position	Meetings Attended
Brigadier Jamal Said Al Taie	Chairperson	7
Mr. Said Hilal Al Habsi	Member	9
Mr. Nabil Hamad Al Mahrouqi	Member	9
Mr. Fahad Abdul Rahman Badar	Member	9
Mr. Padmanabhan Ananthan	Member	7
Mr. Rahul Kar	Former Member	2
Dr. Ghazi Nasser Al Alawi	Former Member	2

- The Audit Committee Charter specifies the responsibility and authority of the BAC.
- The responsibilities of the Committee as specified in the Audit Committee Charter include but are sectionalde not limited to:
- Provide recommendations to the Board of Directors for putting before the Annual General Meeting for the appointment and removal of external auditors, as well as specifying the fees considering the independence of such auditors.
- Discuss with the external auditors their audit plan and the results of their audit, including whether they have had full access to all relevant documents.
- Approve non-audit services awarded to the external auditors (statutory) prior to commencing the engagement and ensure that their independence is not compromised in any manner, and that such engagements comply with Capital Market Authority Oman (CMA) regulations.
- Review and approve the Audit Division's Charter, annual budget, staffing and their compensation (including bonus) and organization structure of audit division.
- Review and approve the appointment, promotion, replacement, reassignment or dismissal of the Chief Internal Auditor of the bank.
- Review, discuss and approve the overall scope of the annual internal audit plan with the Chief Internal Auditor, including the adequacy of the individual audits, staffing and their full access to all relevant documents.
- Review the effectiveness of the internal audit function, including conformance with the Institute of Internal Auditors' Definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing.
- Review and discuss with the Chief Internal Auditor findings of critical importance arising from the internal audits carried out in the period between meetings.
- Review management's responsiveness to internal audit findings and recommendations and assess internal audit effectiveness.
- Review and discuss with management, internal auditors and external auditors the adequacy and effectiveness of the internal control system, including information technology security, accounting and financial controls and the bank's system to monitor and manage business risk, and its legal and ethical compliance programs. They may appoint external consultants if deemed necessary.
- Submit the minutes of all BAC meetings to the Board, or discuss the matters discussed at each committee meeting with the Board.
- Periodically assess and report to the Board of Directors, its own performance against its annual work plan, considering the effective use of committee time, responsiveness to the Board-approved charter, and the effectiveness of relationships and communications with management, auditors and the full Board.
- Review and reassess the charter at least annually and obtain the approval of the Board of Directors.
- Meet with external and internal auditors separately, at least once per annum without the management, to hear their views and to consult them vis-à-vis enhancing the level of corporate governance and compliance.

- Serve as a channel of communication between external auditors and the Board and also internal auditors and the Board.
- Oversee the financial reporting process on behalf of the Board, including review of the annual and quarterly financial statements before publication, review of qualifications/reservations in the draft financial statements and discussion of the accounting principles. In particular, any changes in the accounting policies, principles and accounting estimates in comparison to the previous year, any adoption of new accounting policies, any departure from International Financial Reporting Standards (IFRS) and non-compliance with the disclosure requirements prescribed by regulatory authorities such as CBO, CMA etc., should be critically reviewed and discussed with the management and auditors.
- Ensure that management of the Bank has put in place an appropriate system for the adoption of relevant accounting policies and principles regarding the accuracy and fairness of the financial statements. Against this system, the committee should review the financial statements for any content of fictitious or fraudulent nature.
- Review the details of all proposed related party transactions in line with the Bank's policy (complies with the CMA Code of Corporate Governance) and provide appropriate recommendations to the Board.
- Periodically review internal audit findings on the 'restructured' loans upgraded to 'regular' category for information and provide appropriate directions thereon to the management.
- Review details of any fraud reports presented in line with CBO regulations.

Credit Committee of the Board (CCB):

The CCB comprises four members. The committee held thirteen meetings in 2023. The names of the members, their positions and their meeting attendance appear in the table below:

Table (5)

Name	Position	Meetings Attended
Mr. Hamad Mohammed Al Wahaibi	Chairperson	13
Mrs. Najat Ali Ali Al Lawatia	Member	10
Mr. Mohammed Ismail Mandani Al-Emadi	Member	13 (1 by Proxy)
Mr. Joseph Abraham	Member	12 (1 by Proxy)

The CCB's main responsibilities include but are not limited to:

- Approve and renew credit transactions up to the maximum legal limits of the Bank, including underwriting exposures and sell down targets.
- Review reports of risk assets covering bank wide portfolio trends, including higher risk assets, exposures and other reports at least every quarter.

Board Risk and Compliance Committee (BRCC):

The BRCC comprises of four members. The committee held seven meetings in 2023. The major responsibilities of the committee include risk identification and review, risk policy, risk limits and risk management and monitoring, review management of recovery strategies of problem loans and adequacy of provisioning. It is also responsible for reviewing, assessing and monitoring the Bank's compliance activities and overall performance with respect to key legislative and regulatory requirements.

Corporate Governance

The names of the members of the BRCC, their positions and their meeting attendance appear in the table below:

Table (6)

Name	Position	Meetings Attended
Mr. Fahad Abdul Rahman Badar	Chairperson	7
Mr. Padmanabhan Ananthan	Member	5
Mr. Said Hilal Al Habsi	Member	5
Mr. Nabil Hamad Al Mahrouqi	Member	6
Mr. Rahul Kar	Former Member	2
Dr. Ghazi Nasser Al Alawi	Former Member	1

The responsibilities of the BRCC, as specified in the Terms of Reference, include but are not limited to:

The Committee sets the policy on all risk issues and maintains oversight of all Bank risks and Compliance Programme through the Management Risk Committee (MRC) and Compliance Management Committee (CMC). More specifically, the key responsibilities of the Committee are:

a. Approval of new policies of the Bank and periodic review of existing policies.
b. To establish an appropriate credit risk environment.
c. To develop appropriate operational risk management.
d. To consider the strategic risks facing the Bank and refer suggestions for mitigating such risks to the full Board.
e. To maintain oversight of interest rate risk, the bank's balance sheet and income risks.
f. Management of liquidity risk.
g. Management of all other market risks, including foreign exchange.
h. Approval of credit loss write-offs that are over the limits prescribed for the management.
i. Management of people risk.
j. Overseeing information security risk and business continuity risk.
k. Review management of recovery strategies of problem loans and adequacy of provisioning.
l. Formulation and review of the key risk appetites of the Bank.

Additionally, the BRCC's responsibilities include but are not limited to:

1. Build and promote compliance culture.
2. Review, assess and monitor the Bank's compliance activities and overall performance with respect to key legislative and regulatory requirements.
3. Discuss with senior management the outcome of the Monitoring & Reviews program in assessing the overall adequacy and effectiveness of the Bank's legal, regulatory and ethical compliance framework.
4. Review significant compliance risk areas and the steps management has taken to monitor, control, and report such compliance risk exposures.
5. Highlight key concerns related to CBO examination reports and discuss status of issues raised.
6. Review the implementation of risk-based approach for a robust and effective Anti-Money Laundering and countering financing of terrorism (AML/CFT) Programme.

1. Specific responsibilities of the BRCC include:

a. Recommend the risk strategy of the Bank, including but not limited to credit strategy, for Board approval.
b. Recommend the risk charter of the Bank for Board approval and review the charter annually.
c. Set a high-level, bank-wide risk policy framework within the segments of credit, market, operational, reputational, legal, and strategic and accounting risks.
d. Establish risk tolerance levels and portfolio limits, including limits associated with industry sector, geography, asset quality and others, as appropriate.
e. Monitor the enterprise-wide dashboard of risk through the MRC.
f. Review and assess the performance of MRC and the Risk Group in monitoring and controlling all risk to ensure that risk strategies and policies approved by the Board are adhered to and implemented.
g. Direct oversight over regulatory and legal compliance through the MRC and CMC.
h. Regularly review stress scenarios to measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and that predicted by the risk measures.
i. Monitor compliance of various risk parameters by business lines.
j. Approval and annual review of all asset and liability product strategies to include but not be restricted to: all retail lending products and deposit products, treasury and investment products and any other non-standard products relating to corporate banking.
k. Direct oversight over specific credit policy issues including but not limited to:
   - Credit rating models, country limits, concentration issues, loan review mechanism and findings classification policy for loans and provisioning policy.
   - Approval of new product strategies/initiatives having credit implications for the Bank.
   - Review of appropriateness of credit authorities and delegations to management.
   - Periodic review of the Bank's credit risk rating methodology and appropriateness of risk ratings.
l. Endorse the ICAAP document for the approval of the Board.
m. Review the Corporate Governance Report.

Executive, Nomination & Remuneration Committee of the Board (ENRC)

The ENRC comprises of six members. The committee held four meetings in 2023.

The names of the ENRC members, their positions and their meeting attendance appear in the table below:

Table (7)

Name	Position	Meetings Attended
Ms. Amal Suhail Bahwan	Chairperson	4
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairperson	Member	4
Mr. Hamad Mohammed Al Wahaibi	Member	4
Mr. Joseph Abraham	Member	4
Ms. Najat Ali Al Lawatia	Member	3
Mr. Nabil Hamad Al Mahrouqi	Member	3

The main responsibilities of the ENRC as specified in the Terms of Reference include but are not limited to:

- Develop the long-term strategy of the Bank based on economic and market conditions and the Board's vision and recommend it for Board approval.
- Review the Bank's overall strategy and monitor implementation and execution.
- Review the performance of the Bank against approved strategy and budgets.
- Review and recommend for Board approval the Bank's annual budgets and business plans, including all operating and capital expenditure budgets of the Bank in line with the long-term strategy and changes in economic, market and regulatory environments.
- Review reports and analysis of the Bank's financial and operating performance and evaluate key performance indicators against their accompanying strategies.
- Review the performance of the Investment Banking function, including all investments reports.
- Review and recommend to the Board the Bank's proposals for capital raising plan.
- Review and approve the Bank's dividend policy and recommend to the Board the proposed dividend payout.
- Review and approve the Bank's brand vision.
- Review and approve the Bank's human resources manual and policy and the Bank's compensation policy and bonus plan.
- Be responsible for setting the Bank's remuneration framework for management and staff as per the Bank's compensation policy and bonus plan and ensure its proper implementation.
- Review prevailing compensation and benefits and ensure consistency with market trends as per the Bank's compensation policy and bonus plan in accordance with regulatory guidelines.
- Review, approve and amend policies related to employee reward and performance-related incentive plans and assume the function and responsibilities of the Remuneration Committee as specified in the Bank's compensation policy, as approved by the Board.
- Handle appointment and movement of key executives in the Bank from the reward level Assistant General Manager and above.
- Review and approve major changes in the Bank's organizational structure at the level of divisional heads and above.
- Have specific responsibility to recommend for Board approval, and to review and update as necessary, a general strategy and policies for the acquisition, ownership and development of the Bank's properties.
- Approve the acquisition and sale of any property required for the business of the Bank.
- Approve the appointment of construction companies and consultants for the Bank's head office and agree the terms of any construction contract (including any variation order), consultancy or property or facilities management contract relating to any property owned by the Bank.
- Oversee the performance and implementation of any property-related projects.
- Propose the annual CSR and sustainability budget to the Board, which shall submit the same to the shareholders in their Annual General Meeting for approval.
- Identify methods of payment for CSR and sustainability initiatives.
- Submit a report at the end of the year to the AGM for ratification of amounts paid to CSR and sustainability initiatives.
- Adopt a transparent method in preparing the nomination policy targeting directors of high competence and caliber, without prejudice to the right of any of the shareholders to stand for election or to nominate whomever they see fit.
- Exert the best efforts to the assist the Bank in formulating clear, credible and accessible policies to inform shareholders about Directors' and executives' remuneration.
- Prepare detailed job descriptions of the role and responsibilities for Directors, including the Chairperson. This will facilitate the orientation of the Directors towards their tasks and roles and appraise their performance.
- Look for and nominate qualified persons to act as interim directors on the Board in the event a seat becomes vacant.

Corporate Governance

The ultimate responsibility of the ENRC is to ensure that the Bank is adequately prepared to meet the standards set by international best practices.

Compensation policy:

In line with CBO guidelines on remuneration disclosures, the Bank has outlined the relevant qualitative and quantitative disclosures in this report.

Qualitative disclosures

The bank is committed towards fair, performance oriented compensation practices that are supportive of the Bank's long term objectives and ensure long-term alignment of employee and shareholders' interests. The Bank's compensation policy is based on sound compensation principles and practices and in accordance with Central Bank of Oman guidelines issued. The main objectives of the compensation policy include: alignment of compensation with the appropriate financial and risk measures of the bank; recognizing the employees' commitment towards achievement of the annual business plan as well as the long term objectives of the bank; sharing the rewards from the bank's success and growth with the employees and also for retention of employees.

The Compensation policy emphasizes sound risk management and avoids encouraging excessive risk-taking beyond the level of tolerance established by the board through using risk adjusted metrics that take into consideration significant types of risks. Measures are in place to prevent conflicts of interest, and the policy is reviewed on a periodic basis by the Executive Nomination and Remuneration Committee (ENRC) to ensure its effectiveness.

Material Risk Takers (MRT)

Material Risk Takers (MRTs) for the Bank have been identified in line CBO guidelines and are defined as individuals who are in senior positions, heads of control functions and/or through their daily activities have a material impact on the bank's risk profile.

The MRTs for the Bank have been identified in line with the existing organization structure, delegation of authority, nature of responsibilities carried out, decisions taken by the position and CBO's guidelines.

Bonuses or incentive payments for MRTs are distributed over a four-year time horizon to factor for the time horizon of risks. The first year payout is 55% of the bonus, with the remaining balance payout being equally distributed over the following three years, subject to certain conditions such as malus and claw back provisions. MRT bonuses are paid based on their performance and are deferred as per CBO guidelines. Performance of the heads of control and assurance functions specifically are independently assessed by the respective Board Committees they report to.

The Bank›s remuneration policy is designed to address and prevent potential conflicts of interest that may arise if other areas of the business had undue influence over the compensation of staff members in control and assurance functions.

Malus and Clawback

The Compensation policy includes Malus and Clawback elements and the bank reserves the right to adjust the vesting of any of the deferred payments or forfeit non-vested payments if valid reasons or grounds arise especially concerning risks, misstatements of financial results or gross misconduct.

Quantitative Disclosures

As per the Compensation policy, determination of the variable compensation pool is based on Key Performance Indicators (KPIs) including the bank's performance as well as risk based measures. The Bank-wide bonus pool is reviewed by the ENRC and approved by the Board of Directors.

Compensation of Material Riks Taker | Control & Non-Control Functionaries

Table (8)

	Total remuneration- Including Deferred Amount (OMR)	Total Deferred Amount (OMR)
MRT-Excluding Control Functionaries	3,828,161	574,971
MRT-Control Functionaries Only	605,872	86,133
Total	**4,434,033**	**661,104**

Management Team

The Bank's management structure is headed by the Chief Executive Officer (CEO), whose appointment, functions and package are determined by the Board.

The CEO is supported by General Managers who lead functional groups in the Bank. The organization chart also includes Divisional Heads of all the direct subordinates of the CEO.

The following table gives details of the top 5 senior management officers along with their positions:

Table (9)

Name	Designation
Abdullah Zahran Al Hinai	Chief Executive Officer
Tariq Atiq Khan	General Manager – Chief Retail & Digital Banking Officer
Hassan Abdul Amir Shaban	General Manager – Chief Government & Alliance Banking Officer
Sulaiman Said Al Lamki	General Manager – Chief Risk Officer
Srinivasaraghava Varadachari Giridhar	General Manager – Chief Financial and Operating Officer

Market Price Data

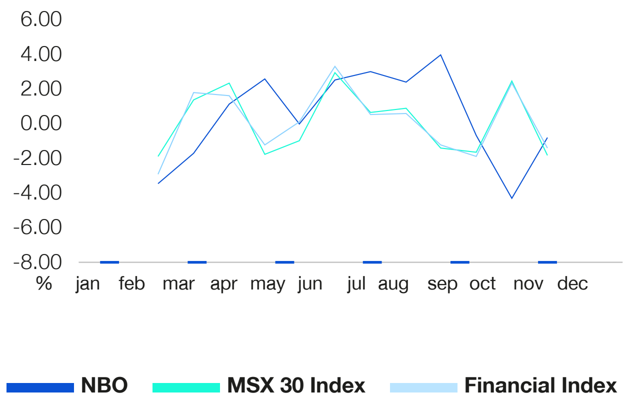
The following table shows the high, low, and closing prices of the Bank's shares and compares the Bank's performance against MSX 30 Index and Financial Index.

NBO Monthly Share Price FY2023 & Performance Comparison Against MSX Index & Financial Index

Table (10)

Month/2023	High	Low	Close
January	0.2810	0.2720	0.274
February	0.2660	0.2650	0.266
March	0.2680	0.2680	0.268
April	0.2750	0.2750	0.275
May	0.2730	0.2700	0.273
June	0.2800	0.2800	0.280
July	0.2900	0.2800	0.289
August	0.2960	0.2960	0.296
September	0.3100	0.2950	0.309
October	0.3040	0.2970	0.304
November	0.2940	0.2850	0.285
December	0.280	0.280	0.280

NBO Stock Price
MSX 30 Index
Financial Index



Related Party Transactions

Details of all transactions where a Director or other related parties might have a potential interest are provided to the Board for their review and approval. The interested Director neither participates in the discussions, nor do they vote on such matters.

On a half yearly basis, as of June 30 and December 31 of each financial year, the details of the Bank's related parties are produced and submitted to the Central Bank and other regulatory bodies for information and proper disclosure.

Details of all the related party transactions are provided to the shareholders as part of the financial statements submitted for approval at the Annual General Meeting, along with a statement that transactions are on an arm's length and independent basis and are reasonable.

Internal Control Review

The Board attaches great importance to maintaining a strong control environment and their review covers all controls, including financial, operational, compliance and risk management.

The Board has a collective responsibility for establishing, maintaining and reviewing a system of internal controls that provides reasonable assurance of effective and efficient operations, internal financial control, and compliance with the relevant laws and regulations.

The Board has established a management structure that clearly defines roles, responsibilities and reporting lines and has approved the updated policies including credit, expenditure, disclosure and corporate governance.

The Bank's financial position, and operational and business performance is regularly reported to the Board. The actual performance achieved against budgets and the prior period is reported and closely monitored.

Financial information is prepared using appropriate accounting policies that are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. They are monitored through compliance with policies and procedures manuals, desk performance instructions and other circulars.

Shareholders

Communication with shareholders and investors

The Board is committed to ensuring that all material information relating to the Bank's business operations is regularly communicated to its stakeholders and members of the investment community.

The Bank has its own website, where relevant information relating to the Bank, its products, its operations and annual and quarterly financial statements are posted. The Bank's website address is www.nbo.om.

- Quarterly results are published and made public. Investor Relations page / Results & Reports page

The quarterly, half-yearly, and annual results of operations of the Bank are published in leading Arabic and English newspapers in the Sultanate of Oman. After completion of the statutory audit, the annual report and the summary financial statements are sent by post to all shareholders, along with the notice of the forthcoming Annual General Meeting of the Bank. Shareholders are advised to contact the Bank whenever they require any updated information regarding the Bank or its operations.

The Bank also displays official new releases on its website https://www.nbo.om/en/Pages/News/Home.aspx for shareholders, analysts and investors.

Distribution of Dividends

The distribution of dividends to Bank shareholders during the last five years appears in the table below:

Table (11)

Year	Cash dividend	Bonus shares
2019	16.8%	0%
2020	0%	0%
2021	3.7%	0%
2022	7.4%	0%
2023	8.5%	0%

Corporate Social Responsibility (CSR)

During 2023, the Bank distributed donations to charitable organizations and other non-profitable organizations and participated in CSR initiatives totaling OMR 102,250. This was from the CSR budget of OMR 200,000 approved by shareholders at the Annual General Meeting held on 19 March 2023.

Details of the Bank's main donations and CSR initiatives in 2023:

Table (12)

Supporting Areas	Implementation Mechanism	Amount (OMR)
Community Development	Oman Charitable Organization 20%	40,000
	Shahar Al Atta	30,000
Request Based Support	In kind donations	32,250
	Serving people with disabilities	
	Regional outreach (Wiliayat)	

Distribution of Shareholding:

Major shareholders (5% and above)

Table (13)

Shareholder Name	No. of shares as on December 31, 2023	%
The Commercial Bank of Qatar	567,452,883	34.90%
Suhail Salim Abdullah Al Mukhaini Bahwan	239,804,865	14.75%
Civil Service Employees Pension Fund	187,754,416	11.55%
Public Authority for Social Insurance	144,250,590	8.87%
Ministry of Defense Pension Fund	124,226,778	7.64%
Oman Investment Authority	86,822,437	5.34%
Other Shareholders	275,634,386	16.95%
Total	**1,625,946,355**	**100%**

The shareholding pattern as of December 31, 2023:

Table (14)

Number of Shares	Number of Shareholders	Total Shares	% of Capital
7,000,000 and above	14	1,482,837,620	91.198%
3,000,000 to 6,999,999	17	75,056,984	4.616%
1,500,000 to 2,999,999	10	20,649,996	1.270%
500,000 to 1,499,999	21	18,078,211	1.112%
100,000 to 499,999	90	20,004,268	1.230%
Below 100,000	830	9,319,276	0.573%
Total	**982**	**1,625,946,355**	**100%**

A copy of the Management Discussion and Analysis is circulated as part of this Annual Report.

There are no global depository receipts, warrants or any convertible instruments outstanding.

Details of Non-compliance

CBO circular BM 1134 and Annexure 3 of the Code of Corporate Governance requires the Bank to provide details of non-compliance. This includes any penalties, strictures imposed on the Bank by the MSEC / CMA or any statutory authority such as the CBO, on any matter related to capital markets, during the last three years. The Bank has identified the following amounts below paid during the last three years.

As of 2023, the Bank had complied with all relevant regulatory requirements in the last three years with the below exceptions:

During the FY 2022, the Bank was penalized OMR 36,000 due to the high-risk countries which were not subjected to an enhanced due diligence. The Bank had not complied with the regulatory instructions on withdrawal of deposit prize schemes and Bank Charges, although the bank had not complied with regulatory instructions on 'Outsourcing".

Total Penalties: OMR 36,000

During the FY 2021, the Bank was penalized OMR 4,000 due to consolidation of exposure of the affected borrowers who had availed the option of deferment into one loan, including the interest on the deferred portion of instalments under deferment and thereby charged interest on interest on such borrowers.

Total Penalties: OMR 4,000

During the FY 2020, the Bank was penalized OMR 20,000, due to the Bank's referral fees for the Bancassurance product sold to retail loans customers was in excess of CBO's prescribed cap. The Bank was also penalized OMR 30,000 for not complying with certain sections / clauses of the AML Law on Counter Money Laundering and Terrorism Financing, for which the remediation program is currently in progress.

Total Penalties: OMR 50,000

Auditors

Having strong internal and external auditors is recognized by the Board as part of sound corporate governance, providing an independent and continuous assessment of the adequacy of, and compliance with, the Bank's established policies and procedures.

KPMG Profile

Profile of the Statutory Auditor

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 has 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.

Statutory Auditor Remuneration & Scope of Services

The Annual General Meeting on March 19, 2023 had approved to appoint KPMG as the Bank's statutory auditor for the financial year ended on December 31, 2023 and approved a total remuneration of OMR 140,000 as a consideration for their services.

The following table includes the services which were provided by KPMG as per the services agreement:

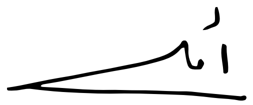
Scope of Services NBO Oman		
Audit of the consolidated financial statements.	Audit of the Muzn Islamic Window.	Assurance report on BDIS statements.
Agreed upon procedures report on the Code of Corporate Governance Report.	Sharia compliance review.	Agreed upon procedures on Basel II Pillar 3 and Basel III disclosures.
MDR returns and certification on senior management/ related parties with credit exposure in excess of 10% of the Bank's capital.	Arabic translation and review of Arabic financial statements and other reports.	Quarterly review of NBO financial statements.
Scope of Services UAE Branches		**Group Reporting & XBRL**
Audit - Combined Financial statements for UAE Branches, Report on Central Bank returns prepared for UAE, Report on statement of computation of Royalty for Abu Dhabi Branch, Report on management fee charged by NBO Head office to NBO Dubai and Abu Dhabi Branch, Limited Assurance report on statement of financial position and P&L on NBO Dubai Branch and NBO Abu Dhabi Branch and Income tax - Dubai and Abu Dhabi Branch.		Group reporting for each quarter, Group reporting for the year end and XBRL reporting for the year end.

Declaration

The Board of Directors declares its liability for preparation of the financial statements in accordance with the applicable standards and rules.

For the year under review, the Board has conducted a review of the effectiveness of the Bank's internal control policies and procedures and is satisfied that the Bank's internal control are effective and that appropriate procedures are in place to implement the Code's requirements.

The Board of Directors confirms that there are no material issues that affect the continuation of the Bank and its ability to continue its operations during the next financial year.



Amal Suhail Bahwan
Chairperson

Financial Consumer Protection Regulation Framework (FCPRF) has been engrained in the core of NBO's business since June 2022. The Board & Senior Management have set out their commitment to ensuring that the FCPR is implemented in NBO and exercised effectively.

The below illustrates the changes/enhancements made in 2023 and the components that have been designed and integrated into the banks framework.

In order to strengthen Customer Experience, Data protection, Transparency and Fair Treatment, the below components were enhanced and/or created:

- Data Protection and Privacy Unit
- Enhancement of the Fraud Risk Management (FRM) Policy
- Information security policy and guidelines & Customer Privacy and Confidentiality Policy
- The Brand Policy and Brand Guidelines
- The Charter of Consumer Rights & Responsibility which illustrates the rights and responsibilities of the consumer
- Terms & Conditions
- The "Key Fact Statements" (KFS) for products
- Awareness campaign for the year 2023
- Ethical Management Policy
- Customer Experience (CX) Policy
- Code of Conduct

The Bank designed an Awareness, Training and Education Strategy to provide the necessary education and awareness to internal and external stakeholders. Overall clarity in communications, in agreements, internal framework and Disclosures were also enhanced.

Internal and External education training program in 2023 covered 215 staff.

Internal competency framework enhancements and effective control measures to support the positive service culture was also made through the introduction of the Retail Sales Policy and the enhancements of the banks "Dhiyafa" Service Standard Philosophy.

Having the banks Complaints Redressal Mechanism bolstered with a simple guideline document through all channels has supported the Bank in improving the reach for the customers.

The Bank has registered:

complaints

2022 → 2023

6821 **9108**

90% being closed within **10 days**

complaints through CBO

2022 → 2023

208 **263**

91% being closed within **10 days**

4

BASEL II-PILLAR III and BASEL III Report 2023

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Agreed-Upon Procedures Report on National Bank of Oman SAOG Basel II - Pillar III and Basel III Disclosures

To the Board of Directors of National Bank of Oman SAOG

Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting National Bank of Oman 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. This report is intended solely for the Bank and the CBO and should not be used by any other parties.

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 11 January 2022, 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.

Kenneth Macfarlane
11 March 2023

KPMG LLC
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KPMG LLC

Enclosures:
National Bank of Oman SAOG's Basel II – Pillar III and Basel III Disclosures

Pillar III Disclosures

National Bank of Oman SAOG ("NBO", "the Bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, wholesale, investment and Islamic banking services within the Sultanate of Oman, through overseas branches in the United Arab Emirates and Egypt. In Oman the bank operates under banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt the branches operate under a commercial bank licences given by the respective Central Banks. The bank is in the process of closing down its operations in Egypt and it is expected that the closure process will be completed during the year 2024. The bank is head quartered at Azaiba, Governorate of Muscat, Sultanate of Oman and its registered address is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The Bank's equity shares are listed on the Muscat Stock Exchange. Perpetual bonds are listed in the Euronext Dublin.

CMA of the Sultanate of Oman requires all Public Joint Stock Companies to disclose the financials of the Parent Company in a separate column in the financial statement vide circular E/2/2007 dated 21 January 2007.

CAPITAL STRUCTURE

The authorised share capital of the bank as at 31 December 2023 is 2,000,000,000 shares of RO 0.100 each.

The issued and paid up capital of the bank as at 31 December 2023 is 1,625,946,355 shares of RO 0.100 each.

The Bank has assigned capital for operations in UAE and Egypt, amounts equivalent to RO 40.9 million and RO 19.3 million respectively. These amounts cannot be withdrawn without the approval of the Central Banks of the respective countries. In addition, within Oman, the bank has allocated RO 35.0 million of capital towards the Islamic banking window.

CAPITAL STRUCTURE (continued)

The Bank's consolidated capital structure as at close of 31 December 2023, based on Central Bank of Oman's (CBO) guidelines is as follows:

Elements of Capital	Amount in RO 000's
TIER I CAPITAL	
LOCAL BANKS	
Paid-up capital	162,595
Share premium	34,465
Legal reserve	54,198
Retained earnings *	234,450
COMMON EQUITY TIER 1 BEFORE REGULATORY ADJUSTMENTS	**485,708**
Deduction	
Revaluation reserves / Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	(8,620)
COMMON EQUITY TIER 1	**477,088**
Additional Tier 1 Capital	
Tier 1 Perpetual Bond	167,133
TIER I CAPITAL AFTER ALL DEDUCTIONS	**644,221**
Tier II Capital	
Revaluation reserves / Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	**2,974**
Stage 1 and Stage 2 ECL allowance eligible for Tier 2	**19,565**
Total Tier II Capital	**22,539**
TOTAL REGULATORY CAPITAL	**666,760**

*Note: Retained earnings are adjusted towards proposed cash dividend which is subject to Shareholders approval.

CAPITAL ADEQUACY

Qualitative Disclosures:

The ultimate objectives of capital management are three fold:

- Ensure stability of the bank by holding enough capital to cover unexpected loss.
- Enhance the efficiency of the bank, by increasing the risk adjusted return at various levels of aggregation (and thereby ensuring that "excess" capital is not held unnecessarily).
- Incentivize informed decision making and proactive risk management through an efficient and effective allocation of capital across the business.

The capital management plan envisaged for the bank is based on the regulatory risk capital framework of Basel II and using standardised approach for calculating the credit as well market risk and the basic indicator approach for operational risk as prescribed by CBO.

The capital management policy of the bank aims to ensure that on a risk adjusted return on capital basis (RAROC), individual lines of business are allocated an appropriate amount of capital. The RAROC model has been implemented for the entire portfolio except for Retail banking where the Central Bank of Oman has defined caps on interest rates, which are followed.

The Asset Liability Committee (ALCO) reviews and monitors capital adequacy and requirement for capital on an ongoing basis. Capital adequacy calculation is prepared and submitted for ALCO's review every month. Various stress scenarios, taking into account the earning volatility, credit and market risk impact along with capital allocation by line of business is reviewed in this forum.

CAPITAL ADEQUACY (continued)

Qualitative Disclosures:

A set of triggers are followed as part of the capital management so as to provide the bank with an early warning system in terms of its level of capital, to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits.

The Bank prepares ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. This document addresses through objective and subjective evaluation, the adequacy of capital after considering the impact of additional risks, such as, Residual Credit Risk, Residual Credit Risk Mitigation (CRM) Risk, Residual Credit Risk - Equity, Residual Market Risk - Currency, Credit Concentration Risk, Interest Rate Risk in Banking Book, Settlement Risk, Reputation Risk, Climate Risk, Strategic Risk and Compliance Risk as well as various levels of stress tests. Following the guidelines issued by the Central Bank of Oman in December 2012, assessment under ICAAP is carried out and submitted to the Central Bank of Oman in accordance with the prescribed guidelines. The Bank will also factor in the regulatory guidelines, wherever applicable on Basel III, while carrying out its assessment.

Quantitative Disclosures:

Details	Amount in RO 000's
Position as at 31 December 2023	
Tier I capital (after supervisory deductions)	**644,221**
Tier II capital (after supervisory deductions & upto eligible limits)	**22,539**
Risk Weighted Assets (RWAs) – Banking Book	**3,599,409**
Risk Weighted Assets (RWAs) – Operational Risk	**254,659**
Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk	**3,854,068**
Minimum required capital to support RWAs of banking book and operational risk	472,123
MINIMUM REQUIRED CAPITAL COMPRISES OF;	
i) Tier I capital	449,584
ii) Tier II capital	22,539
Balance Tier I capital available for supporting Trading Book	194,637
RISK WEIGHTED ASSETS (RWAS) – TRADING BOOK	**87,555**
Total capital required to support Trading Book	10,725
Minimum Tier I capital required for supporting Trading Book	3,057
Total Regulatory Capital	**666,760**
Total Risk Weighted Assets – Whole bank	**3,941,623**
BIS CAPITAL ADEQUACY RATIO (%)	**16.9**

CAPITAL ADEQUACY (continued)

Basel III Disclosures:

In compliance with CBO circular BM 1114 dated 17 November 2013; certain mandatory capital adequacy disclosures are made below:

Details	Gross Balance (Book value)	Net Balance (Book value)	Risk Weighted Assets
Position as at 31 December 2023			**RO'000**
On balance sheet items	4,939,128	4,802,976	3,320,866
Off balance sheet items	274,637	274,637	260,906
Derivatives	17,637	17,637	17,637
Operational Risk	-	-	254,659
Market Risk	-	-	87,555
TOTAL	**5,231,402**	**5,095,250**	**3,941,623**
Common equity Tier I Capital			477,088
Additional Tier 1 Capital			167,133
Tier 2 Capital			22,539
TOTAL REGULATORY CAPITAL			**666,760**
Total required Capital @ 12.25%			482,848
Capital requirement for credit risk			440,927
Capital requirement for market risk			10,725
Capital requirement for operational risk.			31,196
Common Equity Tier 1 Ratio (%)			**12.1**
Tier I Ratio (%)			**16.3**
TOTAL CAPITAL RATIO (%)			**16.9**

RISK EXPOSURE AND ASSESSMENT

Risk Management

The primary objective of risk management is to safeguard the Bank's resources from the various risks which the Bank faces. The Risk Group comprises Corporate Credit Risk, SME Credit Risk, Retail Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk and Loan Review section. All risk management functions report to Chief Risk Officer and are independent from Business Units.

The Bank's Credit Risk Strategy is aimed at adopting a structured approach to credit growth and de-emphasizing areas that are considered relatively high risk based on the prevailing and expected market conditions.

The administrative framework and the policies and procedures in place for the management of risks are based on international best practices, the recommendations of the Basel Committee and the guidelines of the Central Bank of Oman.

The Bank has exposure to the following risks:

CREDIT RISK

Qualitative Disclosures

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fail to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman. The Bank computes expected losses on credit exposure on the basis of risk classification of both corporate and retail loans in the delinquent category based on the guidelines of Central Bank of Oman. The objective of the Bank in management of credit risk is to protect the credit quality of its credit exposures. Credit Risk is managed within the regulatory requirement of Central Bank of Oman, risk framework provided in the Risk Charter and Credit Policies and Procedures.

The policies and procedures are periodically reviewed by the Management and the Board Risk Committee to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures are done in coordination with respective Business Units as per established procedures.

The Bank has in place a robust credit risk management structure comprised of Corporate Credit Risk, SME credit risk, Retail Credit Risk, Loan Review Mechanism, Remedial Management and Credit Administration and Control Divisions.

Corporate credit Risk and SME Credit Risk

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate Banking and Financial Institutions exposures while SME Credit Risk Division independently reviews Business Banking and Small Business Unit exposures. Both the Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The bank follows risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The bank has implemented a customized Moody's Risk Analyst model for risk rating corporate borrowers. Corporate Credit Risk Division also provides advice and guidance to business units with a view to promoting best practices throughout the bank in the management of credit risk.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures. Further, the bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

CREDIT RISK (continued)

Retail Credit Risk

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs. A programmed lending approach contains standard risk acceptance criteria and loan processing practices in order to optimize the efficiency and risk/ reward of those portfolios. Product programs are approved by Board Risk Committee and their performance is monitored on a regular basis and reviewed.

Based on the prevailing market conditions, the Bank sustained its continuous monitoring of the portfolio with a thorough review of the Credit Policy / Product Program. Credit facilities outside the Product Programs / Policy Parameters are individually reviewed and assessed by the Retail Banking division & the Retail Credit Risk Division. Efforts are being taken to implement the Credit bureau score (Mala'a) for major loan products.

Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency and to enhance the recovery methodologies of the retail portfolio. The Bank has an automated Loan Collection System in order to enhance its collections and recovery processes. It also has an automated Loan Origination System to further enhance its Retail Credit Risk framework.

Loan Review Mechanism

An independent Loan Review Mechanism Division evaluates the quality of loan book, balance between risk and reward and brings about qualitative improvements in credit administration. The division evaluates effectiveness of loan administration, integrity of credit grading process, assessment of expected credit losses, portfolio quality, etc.

Remedial Management

Remedial Management is responsible for pursuing each delinquent account, by using all available measures, to reduce exposure to high risk groups, to maximize recoveries, rehabilitating these relationships so that they can be returned to the business lines as fully performing accounts and progressively improve the status of the portfolio.

Credit Administration and Control

The Credit Administration and Control section ensures:

- Documentation for all loans is properly completed, executed and maintained.
- The correct approving authority approves credit lines and details are accurately recorded.
- Production of adequate and accurate reports covering various credit risk exposures.
- Irregularities are reported and corrective action is taken.
- Review of and participation in any new/existing product offerings of the Bank.
- Various internal reporting and external reporting is prepared on a periodical basis.
- That all approved limits are input into the system under a "maker and checker" concept.
- Disbursement of funds for all approved credit exposures is appropriately authorized.

RISK REPORTING AND MEASUREMENT SYSTEMS

The scope and nature of the risk reporting and/or measurement system are as follows:

Risk Reporting

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Risk Committee of the Board. Salient areas covered in the review include:

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions

In addition, the bank conducts industry studies in various sectors considered to have a bearing on the portfolio credit quality, such as, real estate, leasing, and sectors impacted by volatility in commodity prices. For FIG exposures the bank conducts stress tests and quarterly reviews of adverse rating migrations and outlooks in line with best practices and regulatory guidelines. These reports are

CREDIT RISK (continued)
Risk Reporting (continued)

reviewed periodically by the Management and Board Risk Committees.

A review of the Retail Credit Portfolio is conducted on a monthly basis and provided to the Management Risk Committee, and every quarter the latest report is presented to the Board Risk Committee. Salient areas covered in the review include:

- Portfolio review
- Management summary, delinquency and default trends (including product-wise delinquency analysis, vintage analysis, delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the month
- Recoveries

Measurement

Impairment losses on loans and advances

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

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

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default.
- The borrower requesting emergency funding from the Bank.
- The borrower having past due liabilities to public creditors or employees.
- The borrower is deceased.
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral.
- A material decrease in the borrower's turnover or the loss of a major customer.
- A covenant breach not waived by the Bank.
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection.
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the bank formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

CREDIT RISK (continued)
Incorporation of forward-looking information (continued)

Given the nature of the bank's exposures and availability of historical statistically reliable information, the bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman)
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 66 USD/barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:

    a. historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
    b. size of the detachment equal to plus/minus 0.87 standard deviation from the base scenario as an approximate representation of 33.33% probability of alternative (adverse and favourable) scenarios,
    c. the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).
4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data and assigns the internal rating.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

Basel II - Pillar III and Basel III Report 2023

CREDIT RISK (continued)
Economic variable assumptions (continued)

- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the bank.

The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

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

CREDIT RISK (continued)
Loss given default (continued)

a. adequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.
c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
d. Frequent changes in key senior management personnel without acceptable successors or professional management.
e. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
f. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

Measurement of ECL - Judgemental adjustments:

Where appropriate, the Bank makes adjustments to the ECL estimate outside the Bank's regular modelling process to reflect management judgements. The changes to the assumptions underlying these judgmental adjustments could materially affect ECL within the next 12 months. These adjustments include post-model adjustments (PMAs) and overlays.

PMAs are adjustments to the ECL balance as part of the year-end reporting process to reflect late updates to market data, known model deficiencies and expert credit judgement. They are usually calculated and allocated at a granular level through modelled analysis, calculated separately for each economic scenario and where appropriate used to adjust stage allocation outcomes.

Overlays are adjustments to the ECL model outputs that have been made outside the detailed ECL calculation and reporting process. These do not meet the Bank's definition of PMAs because they are not calculated at a granular level through modelled analysis.

The Bank has internal governance frameworks and controls in place to assess the appropriateness of all judgmental adjustments. The aim of the Bank is to incorporate these adjustments into the ECL models, where possible, as part of the periodic recalibration and model assessment procedures.

Total judgmental adjustments as at 31 December 2023 increased the overall loss allowance by 0.89% compared to ECL allowance derived through the ECL models.

Model risk management:

The Bank has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Bank undertook a gap assessment on the following:

Data Management Framework which consists of Data identification and appropriateness, Data Governance, Data Infrastructure and systems, Model development scope includes, data preparation and transformations, sampling and methodology appropriateness, Development phase testing, Model validation, Model governance and Controls which covers Model objective and strategy, Model Lifecycle, Model Inventory and management, decision process, Model documentation, Model usage, Model performance and monitoring Model Validation which includes validation plan and procedures, metric directory and limits, responsibility and review frequency, Implementation and Calibration covering Project Governance, system infrastructure, user acceptance testing, production testing, overrides, calibration suitability, rectification plans and efficiency. Detailed itemised remedial plan for each of the models used by NBO.

This enabled the bank to establish a systematic approach to manage the development, validation,

CREDIT RISK (continued)
Model risk management (continued)

approval, implementation and on-going use of the models. It set out an effective governance structure with clearly defined roles and responsibilities, policies and controls for managing model risk. To this end, the bank is setting up a Model oversight committee represented by senior management, responsible for all significant modelling decisions related to each step pf the model life cycle as a part of the model governance framework. The framework would be reviewed on a regular basis to ensure it meets regulatory standards and international practices.

The Bank has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defence for the Bank in terms of usage of models.

Credit Risk Management Policy:

A comprehensive set of Corporate Credit Risk Policy and Procedures Manuals, provides detailed policy guidelines and embedded in which are the regulatory/ in-house limits. Further, procedures manuals provide detailed process guidelines about the credit process and the templates to be used to process the individual credit applications. Financial Institutions Group (FIG) exposures are managed as per the Financial Institutions Policy guidelines. Retail Credit Policy outlines the policy guidelines related to retail banking and covers product programs and parameters relating to Salary Related Loans, Mortgages, Credit Cards and other retail product offerings. Credit Policies and Procedures are periodically reviewed to ensure that they are aligned to the market and regulatory guidelines.

CREDIT RISK (continued)

Quantitative Disclosure:

i. Total gross credit exposures, plus daily average of gross exposure over the period broken down by major types of credit exposure as at 31 December 2023:

S. No	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		Current Year	Previous Year	Current Year	Previous Year
					(RO'000)
1	Overdrafts	72,767	77,366	68,843	67,388
2	Personal loans	1,467,862	1,428,646	1,504,703	1,434,191
3	Loans against trust receipts	59,592	73,945	54,818	50,926
4	Other loans	1,996,139	1,796,746	2,014,395	1,949,620
5	Bills discounted	13,744	12,898	10,850	10,269
	TOTAL	**3,610,104**	**3,389,601**	**3,653,609**	**3,512,394**

ii. Geographic distribution of exposures by major types of credit exposure as at 31 December 2023:

S. No	Type of Credit Exposure	Oman	Unted Arab Emirates	Others	Total
					(RO'000)
1	Overdrafts	53,079	15,764	-	68,843
2	Personal loans	1,504,363	340	-	1,504,703
3	Loans against trust receipts	50,851	3,967	-	54,818
4	Other loans	1,926,569	80,729	7,097	2,014,395
5	Bills discounted	9,603	1,247	-	10,850
	TOTAL	**3,544,465**	**102,047**	**7,097**	**3,653,609**

CREDIT RISK (continued)

iii. Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2023:

S. No	Economy	Overdrafts	Loans	Bills Discounted	Loans against trust receipts	Gross Loans	Off-Balance Sheet Exposure
							(RO'000)
1	Import Trade	-	11,241	-	50,851	62,092	-
2	Wholesale & Retail Trade	19,073	142,917	1,264	1,182	164,436	42,591
3	Mining & Quarrying	1,093	189,987	1,459	-	192,539	1,045
4	Construction	19,199	143,545	533	1,923	165,200	88,150
5	Manufacturing	6,986	185,791	80	862	193,719	35,276
6	Electricity, Gas and Water	49	238,476	-	-	238,525	9,586
7	Transport and Communication	1,137	273,912	-	-	275,049	24,870
8	Financial Institutions	857	239,884	3,235	-	243,976	51,949
9	Services	11,593	287,111	4,246	-	302,950	56,547
10	Personal Loans	-	1,504,703	-	-	1,504,703	214
11	Agriculture and Allied Activities	1,122	7,456	33	-	8,611	2,078
12	Government	-	211,560	-	-	211,560	-
13	Non-Resident Lending	-	27,227	-	-	27,227	-
14	All Others	7,734	55,288	-	-	63,022	2,155
	TOTAL	**68,843**	**3,519,098**	**10,850**	**54,818**	**3,653,609**	**314,461**

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CREDIT RISK (continued)

iv. Residual contractual maturity as at 31 December 2023 of the whole loan portfolio, broken down by major types of credit exposure:

S. No	Time Band	Overdrafts	Loans	Bills Discounted	Loans against trust receipts	Gross Loans	Off-Balance Sheet Exposure
							(RO'000)
1	Upto 1 month	3,442	185,401	4,672	11,141	204,656	71,341
2	1-3 months	3,442	150,612	5,147	23,098	182,299	59,749
3	3-6 months	3,442	50,610	1,031	20,323	75,406	57,506
4	6-9 months	3,442	35,368	-	256	39,066	41,776
5	9-12 months	3,442	164,465	-	-	167,907	30,619
6	1-3 years	17,211	551,280	-	-	568,491	40,716
7	3-5 years	17,211	414,885	-	-	432,096	12,360
8	Over 5 years	17,211	1,966,477	-	-	1,983,688	394
	TOTAL	**68,843**	**3,519,098**	**10,850**	**54,818**	**3,653,609**	**314,461**

v. Total loan broken down by major industry or counter party type as at 31 December 2023:

S. No	Economic Sector	Gross Loans	Of which, NPL as per IFRS -9	Stage -1 and Stage -2 provisions as per IFRS -9	Stage -3 provisions held as per IFRS -9	Provisions made during the year	Advances written off during the year
							(RO'000)
1	Import Trade	62,092	-	1,207	-	136	-
2	Wholesale & Retail Trade	164,436	14,701	6,931	10,925	3,728	5,780
3	Mining & Quarrying	192,539	13,309	666	7,986	587	-
4	Construction	165,200	34,702	17,006	26,349	5,364	465
5	Manufacturing	193,719	9,324	7,785	8,224	3,742	-
6	Electricity, Gas and Water	238,525	49	1,844	49	1,622	3,229
7	Transport and Communication	275,049	3,375	653	2,453	539	-
8	Financial Institutions	243,976	-	5,500	-	273	-
9	Services	302,950	50,968	5,735	28,899	2,649	10,908
10	Personal Loans	1,504,703	37,006	12,191	16,564	6,197	4,472
11	Agriculture and Allied Activities	8,611	48	113	10	6	-
12	Government	211,560	-	75	-	14	-
13	Non-Resident Lending	27,227	-	7	-	4	-
14	All Others	63,022	2	1,572	2	(913)	-
	TOTAL	**3,653,609**	**163,484**	**61,285**	**101,461**	**23,948**	**24,854**

CREDIT RISK (continued)

vi. Amount of impaired loans as at 31 December 2023, broken down by significant geographical areas including, with the amounts of specific and general allowances related to each geographical area:

S. No	Countries	Gross Loans	Of which, NPL as per IFRS -9	Stage -1 and Stage -2 provisions as per IFRS -9	Stage -3 provisions held as per IFRS -9	Provisions made during the year	Advances written off during the year
							(RO'000)
1	Oman	3,544,465	136,285	60,795	75,128	23,054	17,999
2	Other GCC Countries	102,047	27,199	489	26,333	894	6,855
3	Others	7,097	-	1	-	-	-
	TOTAL	**3,653,609**	**163,484**	**61,285**	**101,461**	**23,948**	**24,854**

vii. Movement of gross loans:

Details	Stage 1	Stage 2	Stage 3	Total
				(RO'000)
Exposure subject to ECL				
Opening Balance - as at 1 January 2023	**2,801,141**	**538,141**	**173,112**	**3,512,394**
Transfer to stage 1	4,071	(3,603)	(468)	-
Transfer to stage 2	(247,108)	247,525	(417)	-
Transfer to stage 3	(4,485)	(18,551)	23,036	-
New loans, advances and Islamic financing assets	1,104,841	37,491	-	1,142,332
Recovery of loans, advances and Islamic financing assets	(923,116)	(46,222)	(6,925)	(976,263)
Write off for the period	-	-	(24,854)	(24,854)
Closing Balance - as at 31 December 2023	**2,735,344**	**754,781**	**163,484**	**3,653,609**
TOTAL PROVISIONS	**6,658**	**54,627**	**101,461**	**162,746**

Credit Risk –Disclosures for portfolios subject to the standardized approach.

Qualitative Disclosures

- The bank is following Moody's rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk.
- With the approval of the CBO, the bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans which are risk weighted at 35% based on the requirements as stipulated in the guidelines issued by CBO.
- Similarly, with the approval of CBO, the bank uses the discretion of the simple approach for recognising collaterals.

CREDIT RISK (continued)

Quantitative Disclosures:

Gross exposure amount as at 31 December 2023, subject to the standardized approach is as below:

S. No	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
								(RO'000)
	RATED							
1	Sovereign	700,941	-	-	-	-	-	**700,941**
2	Banks	-	193,285	-	107,743	27,740	545	**329,313**
	UNRATED							
1	Corporate	264,706	4,948	-	-	1,536,928	-	**1,806,582**
2	Retail	-	-	-	-	937,228	-	**937,228**
3	Claims secured by residential property	-	-	411,460	-	119,008	-	**530,468**
4	Claims secured by commercial property	-	-	-	-	210,797	-	**210,797**
5	Past due loans	2,092	-	-	-	161,392	-	**163,484**
6	Other assets	34,862	-	-	-	225,204	250	**260,316**
7	Venture Capital & Private Equity Invest-ments	-	-	-	-	-	-	**-**
8	Off-balance Sheet Items	539	5,195		18,072	268,468	-	**292,274**
	TOTAL BANKING BOOK	**1,003,140**	**203,428**	**411,460**	**125,815**	**3,486,765**	**795**	**5,231,403**

CREDIT RISK MITIGATION

Qualitative Disclosures:

The Bank can hold collateral against loans and advances to customers in the form of cash, government development bonds, acceptable financial securities, mortgage interest over property, and other registered charge over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed on an on-going basis.

The Bank has adopted the simple approach for collaterals.

Quantitative Disclosures:

S. No	Details	Amount
		(RO'000)
1	Corporate cash collateral	**34,691**
2	Specific provisions and reserve interest on loans and advances and due from banks	**101,461**
	TOTAL	**136,152**

The capital requirement on credit risk as at 31 December 2023 is RO ('000) 440,927.

Market Risk

The objective of Bank's Market Risk Management is to manage and control market risk exposures which arises from fluctuations in interest rates, foreign exchange rates and equity prices while maintaining a market profile consistent with Bank's risk appetite. The board has set limits for acceptable levels of Market Risk. The Assets and Liabilities Committee (ALCO) monitors the exposure on a regular basis. Market Risk is managed based on Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Separate Market Risk policies exist for the Bank's operations in Egypt and UAE to be compatible with the local regulatory and operational environments. Stress tests are also conducted periodically to analyze the impact of Bank and market specific stress factors crises on the earnings and capital of the Bank. The results are reviewed by ALCO, Management and Board Committees.

Market Risk Division provides risk-weightings for treasury products in line with best practices based on potential future exposure. The middle-office along with Treasury and Investment Banking Operations monitors the Market Risk positions of the Bank.

Trading Book

Foreign Exchange Risk is the risk that the Bank may suffer losses as a result of adverse exchange rate movements.

The exposure under the trading book of the Bank includes relatively small foreign exchange exposure primarily arising from the holding of day-end positions in currencies overnight, and exposure towards interest rate related instruments. Positons are monitored on daily basis to ensure open currency position is maintained within the regulatory limit of 40% of networth.

Value-at-risk (VaR) is used to estimate the potential losses on risk positions as a result of movements in market rates and prices. The VaR is computed every month for all non-pegged currencies in which the Bank's end-of-the-day position is above a minimum threshold. The VaR is reviewed by ALCO, Management Risk Committee and Board Risk Committee.

The Bank holds investment that are Fair Value Through Profit and Loss account (FVTPL) consisting of investments in portfolio of equities and funds which is managed by the Investment Banking division. The exposures are daily monitored by the Middle Office as per the approved stop loss and exposure limits through Mark-to-Market (MTM) reports.

For the purpose of capital charge, the three month average positions is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date. The capital charge is computed at 12.5% to reflect the general market risk.

Capital required for trading book as at 31 December 2023:

- Foreign Exchange Risk - RO ('000) 10,725

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

The bank follows basic indicator approach for determining operational risk.

The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net interest income (+) Non interest income (+) Provisions for unpaid interest (-) realized profit on financial assets measured at fair value through other comprehensive income investments (-) extraordinary / irregular items of income.

Capital requirement for operational risk as per Basel II is RO (000s) 31,196.

Insurance is another tool used by the bank as an operational risk mitigant. Insurance coverage such as Bankers' Blanket Bond (BBB), Professional Indemnity, incomplete transactions, Directors and Officers liability and cyber liability insurance etc as obtained by the bank, aim at protecting the bank from high severity risks by reducing the financial impact of the same.

In addition to the above and in order to keep control of operational incidences / losses the Bank has set in place a special operational risk appetite against which incidents / losses are being monitored regularly for possible breaches and appropriate mitigants are put in place.

Climate Related Risk

Climate change has emerged as one of the most significant global challenges of the time, impacting economies, societies, and ecosystems across the planet. As the effects of climate change become increasingly apparent, businesses and institutions must recognize the urgent need to address climate risks. Among these institutions, banks play a crucial role in shaping the global financial landscape and have a unique responsibility to manage climate-related financial risks within their operations.

In recent years, the financial sector has witnessed a growing recognition of the systemic risks associated with climate change. From physical risks, such as extreme weather events and rising sea levels, to transitional risks, such as policy changes and technological disruptions, climate-related factors have the potential to profoundly impact the stability of the banking industry. In this light, the bank has developed a comprehensive climate risk policy duly approved by the board. The policy serves as a roadmap to identify, assess, and mitigate the risks and opportunities associated with climate change. By incorporating climate considerations into operations, NBO intends to effectively manage its consequent risks, seize emerging opportunities, and contribute to the transition to a low-carbon and climate-resilient economy.

BANKING BOOK

Equity Price Risk

The proprietary equity positions are held in the Fair Value Through Other Comprehensive Income (FVOCI) category as part of Banking book exposure and not in the FVTPL category. As such, no VaR is calculated for the FVOCI portfolio. These are marked to market on a daily basis which are circulated to the management and required actions, if any, are promptly taken as per the investment Policy, which inter-alia provides sector concentration limits, trigger levels and other guidelines for prudent management of the portfolio.

Interest Rate Risk

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise in yield curves to review the impact on the economic value of the assets and liabilities and the equity of the Bank and impact on the earnings of the Bank up to one year.

In respect of monitoring the impact of interest rate changes on the earnings of the Bank, the Bank has set internal limits. Positions are monitored on a monthly basis and hedging strategies used to ensure positions are maintained within established limits.

The methods for interest rate sensitivity analysis are a traditional Maturity Gap Analysis (to measure the interest rate sensitivity of earnings), and duration (to measure interest rate sensitivity of capital) as per methodology provided by Basel Committee in 2004.

Quantitative Disclosures:

The assumptions used to measure the sensitivity is parallel shift in interest rate by 200 basis points (bps) to measure the interest sensitivity of earnings and interest rate sensitivity of capital.

As at December 2023	200 bps increase	200 bps decrease
Earnings impact - RO'000s	7,124	(7,124)

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The Bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The analysis is carried out at monthly rests and results thereof monitored against the in-house prescribed limits; the results are also actively deliberated at the ALCO meetings. The interest rate risk of the Bank have been within the prescribed limit during the year.

Interest Rate Risk

The Bank's interest sensitivity position, in line with guidelines issued by Central Bank of Oman, based on contractual re-pricing arrangements at 31 December 2023 was as follows:

	Average effective interest rate	On de-mand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	N/A	-	-	-	-	404,469	404,469
Due from banks and other money market placements (net)	5.80%	179,443	19,250	6,853	-	118,667	324,213
Loans, advances and financing activities for customers (net)	5.96%	1,245,155	924,258	676,358	642,500	7,655	3,495,926
Financial investments	5.66%	144,773	7,885	230,769	68,748	5,440	457,615
Premises and equipment	N/A	-	-	-	-	55,893	55,893
Other assets	N/A	-	-	-	-	83,890	83,890
Total assets		1,569,371	951,393	913,980	711,248	676,014	4,822,006
Due to banks and other money market de-posits	6.40%	382,610	7,700	-	-	22,721	413,031
Customers' deposits and unrestricted in-vestment accounts	2.95%	354,059	1,725,907	920,007	129	572,931	3,573,033
Other liabilities	N/A	21,849	-	-	-	120,574	142,423
Taxation	N/A	-	-	-	-	18,976	18,976
Tier 1 Perpetual Bond	7.61%	-	-	167,133	-	-	167,133
Shareholders' equity	N/A	-	-	-	-	507,410	507,410
Total liabilities and shareholders' equity		758,518	1,733,607	1,087,140	129	1,242,612	4,822,006
Total interest rate sensitivity gap		810,853	(782,214)	(173,160)	711,119	(566,598)	-
Cumulative interest rate sensitivity gap		810,853	28,639	(144,521)	566,598	-	-

LIQUIDITY RISK

Qualitative Disclosures

Liquidity may be defined as a Bank's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk occurs when the Bank is unable to meet short term obligation when falling due which may raise a potential risk to earnings and capital of the Bank. Conversely, liquidity risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

The strategy of the Bank in management of liquidity risk is to minimize the resultant impact on the earnings of the Bank. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or impacting Bank's reputation. The Bank manages the liquidity risk based on Central Bank of Oman guidelines, Liquidity Risk Policy and Liquidity Contingency Plan.

NBO takes a two-tiered approach to Liquidity Risk Management:

Going concern Liquidity Management - management of the liquidity position within specified parameters to ensure all liabilities can be met on a timely basis.

Event Risk Liquidity Management - ensuring that in the event of either a firm-specific or general market event, the Bank is able to generate sufficient liquidity to withstand a short term liquidity crisis. Event Risk Liquidity Management includes the following tools:

- Stress test: a quantitative analysis of liquidity impact of several (market and bank specific) liquidity crises.
- Liquidity buffer: mitigation of an event risk is achieved through the provision of standby liquidity in the form of unencumbered, Central Bank eligible collateral and stand-by lines.
- Contingency Funding Plan: A comprehensive Liquidity Contingency Plan that documents the procedures that the Bank would adopt to withstand either temporary or prolonged disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost.

The overall Liquidity Risk is kept at such a level that NBO is able to resume its business after a specified crisis.

Treasury division of the Bank receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury division maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank is subject to liquidity limits prescribed by the CBO. Additionally, the Bank has also set internal mismatch limits by currency and limits for ensuring that liquidity lines are sufficient to meet short term maturing obligations.

The liquidity position is monitored through the Statement of Maturities of Assets and Liabilities to ensure that the gaps are within the regulatory and internal limits. The Bank also periodically conducts stress tests on liquidity based on market and bank specific scenarios.

Management periodically reviews the strategy and policies related to management of liquidity to ensure that necessary actions are implemented for monitoring and controlling liquidity risk.

The Bank has in place an effective and efficient liquidity risk management structure comprising an active ALCO which meets at monthly intervals and more frequently, if required. ALCO is kept informed regularly of the liquidity position of the Bank and immediately if there are any material changes in the Bank's current or prospective liquidity position.

The scope and nature of the risk reporting and/or measurement system:

Scope and Nature of Risk Reporting:

Maturities of Assets and Liabilities is prepared on a monthly basis and more frequently, as required, setting out the maturity profile of the various assets and liabilities and off-balance sheet items. The statement contains the cumulative gaps vis-à-vis cumulative liabilities for each prescribed time band and the position of these gaps vis-à-vis the Regulatory and in-house limits is also reported therein. This statement is placed before the ALCO at its meetings and in case any of the gap limits is exceeded, the same is escalated immediately to the ALCO along with analysis and further action planned to bring the position within the limits.

Measurement:

The monitoring and control of Liquidity Risk is done on an ongoing basis. The Bank uses the maturity ladder approach, which calculates the cumulative surplus or deficit of funds at selected time bands. The cash flows are placed in different time bands based on future behavior of assets, liabilities and off-balance sheet positions. In order to ensure uniformity in the treatment of behavioral patterns of assets, liabilities and off-balance sheet positions, the Central Bank has evolved a broad framework, which has been subscribed to by the Bank. In addition, the Bank regularly evaluates its liquidity position with respect to the liquidity ratios prescribed in the Liquidity Risk Policy.

The Bank has put in place "Liquidity Risk Policy" and "Liquidity Contingency Plan"- duly approved by the Board Risk Committee, which provides detailed guidelines for mitigating the risk. In case of a contingency, the policy provides a blue-print for asset sales, market access and restructuring the maturity and composition of assets and liabilities.

As an on-going mitigant the Bank has in place the availability of liquidity support in the form of committed lines of credit and reciprocal arrangements.

The continuing availability of the CBO liquidity window, which was introduced in the wake of the global financial crisis, is also one of the mitigants of the liquidity risk. Besides, the Bank ensures the liquidity of certain assets as per the Liquidity Contingency Plan as a buffer against liquidity events.

The Bank has also put in place Country and Transfer Risk Policies to primarily control and monitor cross border exposures.

Quantitative Disclosures:

The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at 31 December 2023 was as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	281,522	51,355	332,877	44,914	26,678	71,592	404,469
Due from Banks and other money market placements (net)	290,410	26,950	317,360	6,853	-	6,853	324,213
Loans, advances and financing activities for customers (net)	386,955	164,117	551,072	1,000,587	1,944,267	2,944,854	3,495,926
Financial investments	144,776	7,885	152,661	230,770	74,184	304,954	457,615
Property and equipment	-	-	-	-	55,893	55,893	55,893
Other assets	77,095	6,538	83,633	257	-	257	83,890
TOTAL ASSETS	1,180,758	256,845	1,437,603	1,283,381	2,101,022	3,384,403	4,822,006
Due to Banks and other money market deposits	56,906	111,650	168,556	244,475	-	244,475	413,031
Customers' deposits and unrestricted investment accounts	873,649	1,010,404	1,884,053	1,133,251	555,729	1,688,980	3,573,033
Other liabilities	114,497	6,734	121,231	21,158	34	21,192	142,423
Taxation	18,976	-	18,976	-	-	-	18,976
Shareholders' equity	-	-	-	-	507,410	507,410	507,410
Tier 1 perpetual bonds	-	-	-	-	167,133	167,133	167,133
Total liabilities and shareholders' equity	1,064,028	1,128,788	2,192,816	1,398,884	1,230,306	2,629,190	4,822,006
TOTAL LIQUIDITY GAP	116,730	(871,943)	(755,213)	(115,503)	870,716	755,213	-
Cumulative liquidity gap	116,730	(755,213)	(1,510,426)	(1,625,929)	(755,213)	-	-

Basel III Liquidity Framework

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 (NSFR).

Liquidity Coverage Ratio (LCR)

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III : Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on January 1, 2019, as per the time-line given below:

	1 Jan 2015	1 Jan 2016	1 Jan 2017	1 Jan 2018	From 1 Jan 2019
Minimum LCR	60%	70%	80%	90%	100%

	Total Unweighted Value (average) 2023	Total Weighted Value (average) 2023
	RO'000	RO'000
HIGH QUALITY LIQUID ASSETS		
TOTAL HIGH QUALITY LIQUID ASSETS (HQLA)	632,759	632,759
CASH OUTFLOWS		
Stable deposits	397,902	11,937
Less stable deposits	280,476	28,048
Retail deposits and deposits from small business customers	678,378	39,985
Unsecured wholesale funding, of which: Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,209,140	411,444
Additional requirements, of which:		
Credit and liquidity facilities	20,441	2,044
Other contractual funding obligations	14,501	725
Other contingent funding obligations	520,396	204,215
TOTAL CASH OUTFLOWS	2,442,856	658,413
CASH INFLOWS		
Inflows from fully performing exposures	490,334	396,382
Other cash inflows	232,446	232,446
TOTAL CASH INFLOWS	722,780	628,828
TOTAL HIGH QUALITY LIQUID ASSETS		632,759
TOTAL NET CASH OUTFLOWS		164,603
LIQUIDITY COVERAGE RATIO (%)		384.4

Net Stable Funding Ratio (NSFR)

The standard of 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 NSFR ratio in line with guidelines issued by Central Bank of Oman, at 31 December 2023 was as follows:

Item	Unweight value	Weighted value
AVAILABLE STABLE FUNDING	**RO'000**	**RO'000**
Regulatory capital	**666,760**	**666,760**
Liabilities with effective residual maturities of one year or more	1,207,362	1,207,362
Retail and small business customers		
- Stable Deposits	494,128	469,421
- Less Stable Deposits	359,381	323,443
Wholesale Funding		
- Operational and short term funding	1,836,934	918,467
- Other wholesale funding	628,044	226,273
TOTAL AVAILABLE STABLE FUNDING	5,192,609	3,811,726
REQUIRED STABLE FUNDING		
High quality liquid assets		
- Coins, banknotes and reserves with CBO	403,969	-
- Other Level 1 assets	331,334	16,567
Funding to financial institutions with residual maturities of less than six months not included in the above categories	317,360	47,604
Funding not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs	733,850	273,547
Unencumbered residential mortgages that would qualify for the 35% or lower risk weight under Basel II standardised approach for credit risk	411,460	267,449
All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	2,687,406	2,687,406
OFF BALANCE SHEET EXPOSURES		
Irrevocable and conditionally revocable credit and liquidity facilities to any client		
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	341,834	17,092
TOTAL REQUIRED STABLE FUNDING	5,227,213	3,309,665
NSFR (MIN BASEL III REQUIREMENT - 100%) (%)		**115.2**

Leverage Ratio

The leverage ratio deals with the risk of buildup of excessive on and off balance sheet exposures. Minimum Leverage Ratio standard will be made applicable to all the Banks effective from the year 2019.

Basel III leverage ratio framework and disclosure requirements

The leverage ratio in line with guidelines issued by Central Bank of Oman, at 31 December 2023 was as follows:

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	**31-Dec-23**
1	Total consolidated assets as per published financial statements	4,822,006
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	17,637
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)	235,924
7	Other adjustments	-
8	**Leverage ratio exposure**	**5,075,567**
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	**31-Dec-23**
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	4,822,006
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)	4,822,006
	DERIVATIVE EXPOSURES	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	17,637
5	Add-on amounts for PFE associated with all derivatives transactions	-
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)**	**17,637**
	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	341,834
18	(Adjustments for conversion to credit equivalent amounts)	(105,910)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**235,924**
	CAPITAL AND TOTAL EXPOSURES	
20	**Tier 1 capital**	**644,221**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**5,075,567**
	Leverage Ratio	
22	**Basel III leverage ratio (%)**	**12.7**

BASEL III – Transition Disclosure:

Further to the Guidelines on composition of capital disclosure requirements (CP1 & CP2) issued by Central Bank of Oman, the following are the mandatory disclosures for the year ended 31 December 2023.

Prepared under the guidelines on composition of capital disclosure requirements

Table 2a	(RO'000)
Balance sheet as in published financial statements 31 December 2023	
ASSETS	
Cash and balances with Central Banks	404,469
Due from Banks and other money market placements (net)	324,213
Loans, advances and Islamic financing assets (net)	3,495,926
Financial investments	457,615
Property and equipment	55,893
Other assets	83,890
TOTAL ASSETS	**4,822,006**
LIABILITIES	
Due to banks and other money market deposits	413,031
Customers' deposits	3,573,033
Other liabilities	142,423
Taxation	18,976
TOTAL LIABILITIES	**4,147,463**
SHAREHOLDERS' EQUITY	
Share capital	162,595
Share premium	34,465
Legal reserve	54,198
Other non distributable reserves	7,882
Retained earnings	248,270
Tier 1 perpetual bond	167,133
Total shareholders' equity	**674,543**
TOTAL LIABILITY AND SHAREHOLDERS' FUNDS	**4,822,006**

Prepared under the guidelines on composition of capital disclosure requirements

Table 2b		(RO'000)
Balance sheet as in published financial statements 31 December 2023		**Reference**
ASSETS		
Cash and balances with Central Bank of Oman	404,469	
Certificates of deposit	-	
Balance with banks and money at call and short notice	311,751	
Investments in securities	457,615	
Loans and advances Of which :		
Loans to Banks - Gross	12,512	
General Provisions considered for Tier 2	(50)	A
Net Loans to banks	12,462	
Loans to Customers - Gross	3,653,609	
Loans Provisions for Impairment	(138,168)	
Eligible Provisions considered for Tier 2	(19,515)	B
Net Loans to customers	3,495,926	
Fixed assets	55,893	
Other assets of which:	83,890	
Deferred tax assets	-	
Amount considered for CET1	-	
current year allocation - not eligible	-	
TOTAL ASSETS	**4,822,006**	
CAPITAL & LIABILITIES		
Paid-up Capital	197,060	
Of which:		
Amount eligible for CET1	197,060	C
Amount eligible for AT1	-	
Reserves and Surplus	248,270	
Of which: Amount eligible for CET1		
Retained earnings carried forward	234,450	D
Amount **not eligible for CET1**	13,820	
Legal reserve	54,198	E
General reserve	-	
Subordinated debt reserve	-	
TOTAL AMOUNT ELIGIBLE FOR CET1	**485,708**	**F**
Tier 1 perpetual bond	167,133	H
Cumulative changes in fair value of investments	(8,620)	
Amount eligible for Tier 1	8,620	G
Revaluation reserve	7,882	
TOTAL CAPITAL	**674,543**	
Deposits Of which:		
Deposits from banks	413,031	
Customer deposits	3,299,072	
Deposits of Islamic Banking window	273,961	
Euro medium term notes	-	
Other deposits (Sub-debt)	-	
Other liabilities & provisions:	161,399	
TOTAL	**4,822,006**	

Prepared under the guidelines on composition of capital disclosure requirements

Table 4		(RO'000)
Basel III common disclosure template to be used during the transition of regulatory adjustments		
	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**
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	197,060	**C**
Retained earnings	234,450	**D**
Accumulated other comprehensive income (and other reserves)	54,198	**E**
Public sector capital injections grandfathered until 1 January 2018	-	
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
COMMON EQUITY TIER 1 CAPITAL BEFORE REGULATORY ADJUSTMENTS	**485,708**	**F**
COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS		
Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	(8,620)	**G**
TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1	**(8,620)**	
COMMON EQUITY TIER 1 CAPITAL (CET1)	**477,088**	
ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS (TIER 1 PERPETUAL BOND)	**167,133**	**H**
ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS - NIL		
TIER 1 CAPITAL (T1 = CET1 + AT1)	**644,221**	
TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS		
Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
Directly issued capital instruments subject to phase out from Tier 2	-	
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
Of which: instruments issued by subsidiaries subject to phase out	-	
General provisions	19,565	**A + B**
Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	2,974	
TIER 2 CAPITAL: BEFORE REGULATORY ADJUSTMENTS	**22,539**	
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS		
National specific regulatory adjustments	-	
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-	
Of which: Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	-	
TOTAL REGULATORY ADJUSTMENTS TO TIER 2 CAPITAL	-	
TIER 2 CAPITAL (T2)	**22,539**	
TOTAL CAPITAL (TC = T1 + T2)	**666,760**	

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Basel III common disclosure

	AMOUNTS (RO'000)
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	197,060
Retained earnings	234,450
Accumulated other comprehensive income (and other reserves)	54,198
Public sector capital injections grandfathered until 1 January 2018	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory adjustments	485,708
Common Equity Tier 1 capital: regulatory adjustments	
Deferred tax assets arising from temporary differences (net of related tax liability)	-
Gains and losses due to changes in own credit risk on fair valued liabilities.	(8,620)
Total regulatory adjustments to Common Equity Tier 1	(8,620)
Common Equity Tier 1 capital	477,088
ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS	167,133
ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS NIL	
Tier 1 capital	644,221
TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS	
Directly issued qualifying Tier 2 instruments plus related stock surplus	-
Directly issued capital instruments subject to phase out from Tier 2	-
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
Of which: instruments issued by subsidiaries subject to phase out	-
Provisions	19,565
TIER 2 CAPITAL BEFORE REGULATORY ADJUSTMENTS	**19,565**
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS	
National specific regulatory adjustments	-
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
Of which: Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	2,974
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital	**22,539**
Total capital	**666,760**
Total risk weighted assets	**3,941,623**
Of which: Credit risk weighted assets	3,599,409
Of which: Market risk weighted assets	87,555
Of which: Operational risk weighted assets	254,659

Basel III common disclosure (continued)

	AMOUNTS (RO'000)
CAPITAL RATIOS	
Common Equity Tier 1 (as a percentage of risk weighted assets)	12.1
Tier 1 (as a percentage of risk weighted assets)	16.3
Total capital (as a percentage of risk weighted assets)	16.9
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	-
of which: capital conservation buffer requirement	-
of which: bank specific countercyclical buffer requirement	-
of which: D-SIB/G-SIB buffer requirement	-
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	3.84
NATIONAL MINIMA (IF DIFFERENT FROM BASEL III)	
National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	8.25
National Tier 1 minimum ratio (if different from Basel 3 minimum)	10.25
National total capital minimum ratio (if different from Basel 3 minimum)	12.25

Disclosure template for main features of all regulatory capital instruments

1. Common Equity.

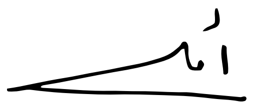
Common equity comprises of 1,625,946,449 equity shares of RO 0.100 each fully paid up, issued and governed under the laws of Sultanate of Oman.

2. All other regulatory capital instruments.

1	Issuer	-	National Bank of Oman	National Bank of Oman
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-	XS2320458172	XS2485968569
3	Governing law(s) of the instrument	-	English	English
4	Transitional Basel III rules	-	Additional Tier 1	Additional Tier 1
5	Post-transitional Basel III rules	-	Eligible	Eligible
6	Eligible at solo/group/group & solo	-	Solo	Solo
7	Instrument type	-	Additional Tier 1	Additional Tier 1
8	Amount recognised in regulatory capital	-	RO 115.5 million	RO 51.63 million
9	Par value of instrument	-	RO 115.5 million	RO 51.63 million
10	Accounting classification	-	Equity	Equity
11	Original date of issuance	-	01-Apr-21	29-Nov-2022
12	Perpetual or dated	-	Perpetual	Perpetual
13	Original maturity date	-	Not applicable	Not applicable
14	Issuer call subject to prior supervisory approval	-	Yes	Yes
15	Optional call date, contingent call dates and re-demption amount	-	01-Apr-2026	29-Nov-2027
16	Subsequent call dates, if applicable	-	Every five years	Every five years
	Coupons / dividends			
17	Fixed or floating dividend/coupon	-	Fixed	Fixed
18	Coupon rate and any related index	-	8.000%	6.750%
19	Existence of a dividend stopper	-	Yes	Yes
20	Fully discretionary, partially discretionary or mandatory	-	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	-	No	No
22	Noncumulative or cumulative	-	Non cumulative	Non cumulative
23	Convertible or non-convertible	-	Non convertible	Non convertible
24	If convertible, conversion trigger (s)	-	Not applicable	Not applicable
25	If convertible, fully or partially	-	Not applicable	Not applicable
26	If convertible, conversion rate	-	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	-	Not applicable	Not applicable
28	If convertible, specify instrument type converti-ble into	-	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts into	-	Not applicable	Not applicable
30	Write-down feature	-	Yes	Yes
31	If write-down, write-down trigger(s)	-	Non viability event	Non viability event
32	If write-down, full or partial	-	Full (See note)	Full (See note)
33	If write-down, permanent or temporary	-	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	-	Not applicable	Not applicable
35	Position in subordination hierarchy in liquida-tion (specify instrument type immediately sen-ior to instrument)	-	Subordinated to Senior Liabilities and Tier 2 - Subordinted debts	Subordinated to Senior Liabilities and Tier 2 - Subordinted debts
36	Non-compliant transitioned features	-	No	No
37	If yes, specify non-compliant features	-	Not applicable	Not applicable

Note: The Capital Securities can be cancelled (in the case of a write-down in whole) or written-down in part on a pro rata basis (in the case of a write-down in part) as determined by the Bank in conjunction with the Regulator in accordance with the Capital Regulations.

This report on Basel II & III disclosures was authorized for issue by the Board of Directors on 30 January 2024.



Amal Suhail Bahwan
Chairperson

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Financial Statements Report 2023

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Independent auditors' report

To the Shareholders of National Bank of Oman SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Bank of Oman SAOG ("the Bank"), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss and other 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 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.

CR No. 1358131
Tax Card No. 8063052

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.

Impairment of loans and advances and Islamic financing

See Note 3.6, 3.7, 3.8, 6, 13, 28.4, 28.5, and 32.1 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.

CR No. 1358131
Tax Card No. 8063052

Impairment of loans and advances and Islamic financing	
See Note 3.6, 3.7, 3.8, 6, 13, 28.4, 28.5, and 32.1 of the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
	• 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. • 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 Information

Management is responsible for the other information. The other information comprises, Chairperson's Report, Management Discussion and Analysis Report, Corporate Governance Report, financial statements of Muzn Islamic Banking Services, Basel II and III – Pillar III report and Basel II and III – Pillar III report of the Muzn 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 express any form of assurance conclusion thereon.

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

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

Responsibilities of 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:

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

— 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.

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.

Kenneth Macfarlane
11 March 2024

KPMG LLC

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

Statement of Financial Position

As at 31 December 2023

2022	2023			2023	2022
USD'000	**USD'000**		**Note**	**RO'000**	RO'000
		ASSETS			
679,452	**1,050,569**	Cash and balances with Central Banks	4	**404,469**	261,589
309,766	**842,112**	Due from banks and other money market placements (net)	5	**324,213**	119,260
8,710,907	**9,080,327**	Loans, advances and Islamic financing assets (net)	6	**3,495,926**	3,353,699
1,050,356	**1,188,610**	Financial investments (net)	7	**457,615**	404,387
148,286	**145,177**	Property and equipment	8	**55,893**	57,090
254,688	**217,896**	Other assets	9	**83,890**	98,055
11,153,455	**12,524,691**	**TOTAL ASSETS**		**4,822,006**	4,294,080
		LIABILITIES AND EQUITY			
		LIABILITIES			
679,852	**1,072,808**	Due to banks and other money market deposits	10	**413,031**	261,743
7,915,382	**9,280,605**	Customers' deposits and unrestricted investment accounts	11	**3,573,033**	3,047,422
490,558	**-**	Euro medium term notes	12	**-**	188,865
361,649	**369,930**	Other liabilities	13	**142,423**	139,235
41,509	**49,288**	Taxation	14	**18,976**	15,981
9,488,950	**10,772,631**	**TOTAL LIABILITIES**		**4,147,463**	3,653,246
		EQUITY			
422,325	**422,325**	Share capital	15	**162,595**	162,595
89,519	**89,519**	Share premium	16	**34,465**	34,465
140,774	**140,774**	Legal reserve	17	**54,198**	54,198
16,597	**20,473**	Other reserves	18	**7,882**	6,390
561,178	**644,857**	Retained earnings		**248,270**	216,053
1,230,393	**1,317,948**	**TOTAL EQUITY ATTRIBUTABLE TO THE SHARE HOLDERS OF THE BANK**		**507,410**	473,701
434,112	**434,112**	Tier 1 Perpetual Bonds	19	**167,133**	167,133
1,664,505	**1,752,060**	**TOTAL EQUITY**		**674,543**	640,834
11,153,455	**12,524,691**	**TOTAL LIABILITIES AND EQUITY**		**4,822,006**	4,294,080

The financial statements were approved and authorised for issue on 30 January 2024 by the Board of Directors.

Director **Chief Executive Officer** **Chairperson**

The attached notes 1 to 37 form part of these financial statements.

Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2023

2022	2023			2023	2022
USD'000	**USD'000**		**Note**	**RO'000**	RO'000
475,725	**587,930**	Interest income	22	**226,353**	183,154
(221,138)	**(316,592)**	Interest expense	23	**(121,888)**	(85,138)
254,587	**271,338**	**Net interest income**		**104,465**	98,016
28,200	**42,010**	Income from Islamic financing and investments		**16,174**	10,857
(13,855)	**(26,226)**	Unrestricted investment account holders' share of profit		**(10,097)**	(5,334)
14,345	**15,784**	**Net income from Islamic financing and investment assets**		**6,077**	5,523
268,932	**287,122**	**Net interest income and net income from Islamic financing and investment assets**		**110,542**	103,539
53,626	**55,192**	Fee and commission income	24	**21,249**	20,646
36,499	**36,561**	Other operating income	25	**14,076**	14,052
359,057	**378,875**	**Operating income**		**145,867**	138,237
(95,358)	**(99,252)**	Staff cost	26	**(38,212)**	(36,713)
(46,595)	**(45,709)**	Other operating expenses	27	**(17,598)**	(17,939)
(15,231)	**(15,842)**	Depreciation	8	**(6,099)**	(5,864)
(157,184)	**(160,803)**	**Total operating expenses**		**(61,909)**	(60,516)
201,873	**218,072**	**Profit from operations before impairment losses and tax**		**83,958**	77,721
(52,595)	**(40,774)**	**Total impairment losses on financial instruments (net)**	28.5	**(15,698)**	(20,249)
149,278	**177,298**	**Profit before tax**		**68,260**	57,472
(24,055)	**(26,574)**	Taxation	14	**(10,231)**	(9,261)
125,223	**150,724**	**PROFIT FOR THE YEAR**		**58,029**	48,211
		OTHER COMPREHENSIVE INCOME			
		Items that will not be reclassified to profit or loss			
3,086	**4,301**	Equity investments at FVOCI – net change in fair value		**1,656**	1,188
10	**(426)**	Tax effect of equity investments at FVOCI – net change in fair value	14	**(164)**	4
		Items that are or maybe reclassified subsequently to profit or loss			
(353)		Debt instruments at FVOCI - net change in fair value		**-**	(136)
2,743	**3,875**	**OTHER COMPREHENSIVE INCOME FOR THE YEAR**		**1,492**	1,056
127,966	**154,599**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**59,521**	49,267
0.06	**0.07**	Earnings per share: (USD) - Basic and diluted - (RO)	30	**0.028**	0.024

The attached notes 1 to 37 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital (note15)	Share premium (note 16)	Legal reserve (note17)	Other reserves (note 18)	Retained earnings	Total equity attributable to the share holder of the bank	Tier 1 perpetual bond (note19)	Total equity
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2023	**162,595**	**34,465**	**54,198**	**6,390**	**216,053**	**473,701**	**167,133**	**640,834**
Profit for the year	**-**	**-**	**-**	**-**	**58,029**	**58,029**	**-**	**58,029**
Other comprehensive income for the year	**-**	**-**	**-**	**437**	**-**	**437**	**-**	**437**
Net losses on derecognition of financial instruments measured at FVOCI (net of tax)	**-**	**-**	**-**	**1,055**	**(1,055)**	**-**	**-**	**-**
Payment of interest on tier 1 perpetual bond	**-**	**-**	**-**	**-**	**(12,725)**	**(12,725)**	**-**	**(12,725)**
Payment of dividend	**-**	**-**	**-**	**-**	**(12,032)**	**(12,032)**	**-**	**(12,032)**
BALANCE AT 31 DECEMBER 2023	**162,595**	**34,465**	**54,198**	**7,882**	**248,270**	**507,410**	**167,133**	**674,543**
BALANCE AT 31 DECEMBER 2023 -IN USD'000	**422,325**	**89,519**	**140,774**	**20,473**	**644,857**	**1,317,948**	**434,112**	**1,752,060**
Balance at 1 January 2022	162,595	34,465	54,198	5,334	183,363	439,955	115,500	555,455
Profit for the year	-	-	-	-	48,211	48,211	-	48,211
Other comprehensive income for the year	-	-	-	1,118	-	1,118	-	1,118
Net gain on derecognition of financial instruments measured at FVOCI (net of tax)	-	-	-	(62)	62	-	-	-
Payment of interest on tier 1 perpetual bond	-	-	-	-	(9,240)	(9,240)	-	(9,240)
Issuance of tier 1 perpetual bond	-	-	-	-	-	-	51,633	51,633
Issuance cost on tier 1 perpetual bond	-	-	-	-	(327)	(327)	-	(327)
Payment of dividend	-	-	-	-	(6,016)	(6,016)	-	(6,016)
BALANCE AT 31 DECEMBER 2022	162,595	34,465	54,198	6,390	216,053	473,701	167,133	640,834
BALANCE AT 31 DECEMBER 2022 -IN USD'000	422,325	89,519	140,774	16,597	561,178	1,230,393	434,112	1,664,505

The attached notes 1 to 37 form part of these financial statements.

Statement of Cash Flow

For the year ended 31 December 2023

2022	**2023**			**2023**	2022
USD'000	**USD'000**		Note	**RO'000**	RO'000
		OPERATING ACTIVITIES			
149,278	**177,298**	Profit before taxation		**68,260**	57,472
		Adjustments for:			
15,231	**15,842**	Depreciation	8	**6,099**	5,864
52,595	**40,774**	Allowance for credit losses - financial instruments	28.5	**15,698**	20,249
(1,691)	**(3,273)**	Amortization of discount/(premium)		**(1,260)**	(651)
(101)	**(18)**	Profit on sale of property and equipment		**(7)**	(39)
(6,291)	**(2,026)**	Profit on investments at FVTPL and amortised cost	25	**(780)**	(2,422)
(226)	**(42)**	Translation differences		**(16)**	(87)
(3,925)	**(5,870)**	Payment of lease liability		**(2,260)**	(1,511)
(52,701)	**(68,462)**	Income from investment		**(26,358)**	(20,290)
152,169	**154,223**	**Operating cash flows before changes in operating assets and liabilities**		**59,376**	58,585
803	**(186,387)**	Due from banks and other money market placements		**(71,759)**	309
(93,470)	**392,956**	Due to banks and other money market deposits		**151,288**	(35,986)
(741,678)	**(353,213)**	Loans, advances and Islamic financing assets		**(135,987)**	(285,546)
(91,582)	**36,792**	Other assets		**14,165**	(35,259)
336,857	**1,365,223**	Customers' deposits		**525,611**	129,690
-	**(490,558)**	Euro medium term notes		**(188,865)**	-
82,621	**(46,945)**	Other liabilities		**(18,074)**	31,809
(354,280)	**872,091**	**Cash from / (used in) operating activities**		**335,755**	(136,398)
(16,499)	**(18,384)**	Taxes paid	14	**(7,078)**	(6,352)
(370,779)	**853,707**	**Cash from / (used in) operating activities**		**328,677**	(142,750)
		INVESTING ACTIVITIES			
(133,291)	**(240,182)**	Purchase of investments		**(92,470)**	(51,317)
255,452	**108,122**	Proceeds from sale of investments		**41,627**	98,349
(5,629)	**(9,197)**	Purchase of property and equipment		**(3,541)**	(2,167)
212	**545**	Proceeds from disposal of property and equipment		**210**	82
52,701	**68,462**	Income from investment		**26,358**	20,290
169,445	**(72,250)**	**Net cash (used in) / from investing activities**		**(27,816)**	65,237
		FINANCING ACTIVITIES			
(15,626)	**(31,252)**	Payment of dividend	20	**(12,032)**	(6,016)
134,112	**-**	Proceeds from Tier 1 perpetual bond		**-**	51,633
(24,000)	**(33,052)**	Interest on Tier 1 perpetual bond		**(12,725)**	(9,240)
(849)	**-**	Issuance cost on Tier 1 perpetual bond		**-**	(327)
93,637	**(64,304)**	**Net cash (used in) / from financing activities**		**(24,757)**	36,050
(107,697)	**717,153**	**INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS**		**276,104**	(41,463)
1,031,995	**924,298**	Cash and cash equivalents at the beginning of the year		**355,855**	397,318
924,298	**1,641,451**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**631,959**	355,855
		REPRESENTING:	4		
678,153	**1,049,270**	Cash and balances with Central Banks		**403,969**	261,089
246,145	**592,181**	Due from Banks maturing within three months		**227,990**	94,766
924,298	**1,641,451**			**631,959**	355,855

Interest received was RO 248 million (USD: 644 million) (2022: RO 194 million, USD 503 million) and interest paid was RO 117 million (USD: 304 million) (2022: RO 88 million, USD 229 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 attached notes 1 to 37 form part of these financial statements.

Notes to the Financial Statements as at 31 December 2023

Notes to the Financial Statements

as at 31 December 2023

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the Bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, wholesale, investment and Islamic banking services within the Sultanate of Oman, through overseas branches in the United Arab Emirates and Egypt. In Oman the bank operates under banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt the branches operate under a commercial bank licences given by the respective Central Banks. The bank is in the process of closing down its operations in Egypt and it is expected that the closure process will be completed during the year 2024. The bank is head quartered at Azaiba, Governorate of Muscat, Sultanate of Oman and its registered address is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The Bank's equity shares are listed on the Muscat Stock Exchange. Perpetual bonds are listed in the Euronext Dublin.

CMA of the Sultanate of Oman requires all Public Joint Stock Companies to disclose the financials of the Parent Company in a separate column in the financial statement vide circular E/2/2007 dated 21 January 2007.

The Bank has the following fully owned Special Purpose Vehicles ("SPVs"):

Name of the entity	Country of incorporation	Activity of the subsidiary	Percentage of ownership	
			2023	2022
NBO Global Markets Cayman Limited	Cayman Islands	Financial services	100%	-

The sizes, operations and financial statements of the above SPVs are not material to the consolidated financial statements of the Bank. Hence, financial statements of the Parent Company have not been provided in a separate column in these financial statements.

2 BASIS OF PREPARATION

2.1 Basis of measurement

The financial statements are prepared under the historical cost basis except for the following:

- financial instruments classified as trading and at fair value through profit or loss (FVTPL);
- financial instruments at fair value through other comprehensive income;
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.4.

2.2 Functional and presentation currency

These financial statements are presented in Rial Omani rounded to the nearest thousand Rial Omani, except when otherwise indicated. The functional currencies of the Bank's operations are as follows:

- Sultanate of Oman: Rial Omani
- United Arab Emirates: UAE Dirham
- Egypt: US Dollar

The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.3 Statement of compliance

The financial statements of the Bank have been prepared in accordance with IFRS accounting standards, applicable regulations of the Central Bank of Oman, and in compliance with applicable requirements of the Commercial Companies Law of Oman 2019 and the Capital Market Authority of the Sultanate of Oman.

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 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 CBO, the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of CBO. The IBWs financial statements are then converted into IFRS compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

2.4 Significant accounting judgments and estimates

In preparation of the Bank's financial statements, management requires to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances, any revisions to estimates are recognised prospectively. The significant judgments and estimates are as follows:

2.4.1 Financial Instruments

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2023 and 31 December 2022 pertain to IFRS 9, Financial instruments which impact:

Measurement of expected credit losses:

Below are the significant Judgements used in measurement of expected credit losses:

1. Establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition.
2. Determining the methodology for incorporating forward-looking information into the measurement of ECL.
3. Selection and approval of models used to measure ECL.
4. Determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting judgments and estimates (continued)

2.4.2 Fair value of financial instruments

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

2.4.3 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Bank establishes provisions, based on reasonable estimates, for possible 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 taxable entity and the responsible tax authority.

2.4.4 Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

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

For the year ended 31 December 2023, the Bank has adopted all of new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2023. The following amendments to existing standards and framework have been applied by the Bank in preparation of these financial statements.

- Disclosures of Accounting Policies – Amendments to IAS 1 and IFRS Practice 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.

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Bank's financial statements.

2.6 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted; however, the Bank has not early adopted the new and amended standards in preparing these financial statements.

- 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 IFRS 16).

The amendments listed above 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.

In addition, the Bank has adopted Disclosure of Accounting Policies (Amendments' to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of 'material' rather than 'significant', accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information related to financial instruments disclosed as below in certain instances.

3 MATERIAL ACCOUNTING POLICIES (continued)

3.1 Financial instruments – initial recognition

A. Date of recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they 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 or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

B. Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases, where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

C. Measurement categories of financial assets and liabilities

The Bank has applied IFRS 9 and classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments at the fair value.

3.2 Financial assets and liabilities

3.2.1 Due from Banks, Loans, advances and Islamic financing assets to customers, financial investments

The Bank only measures due from banks, loans, advances and Islamic financing assets to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- 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.

The details of these conditions are outlined below.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in Other Comprehensive Income (OCI). This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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 the management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the

3 MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.1 Due from Banks, Loans, advances and Islamic (continued)

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.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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 ('SPPI')

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. In making the assessment, the Bank considers:

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

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Contractual terms that introduce a more than, reduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

3.2.2 Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

3 MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.3 Debt instruments at FVOCI

The Bank applies the category of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

3.2.4 Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 (Financial Instruments - Presentation) and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

3.2.5 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

3.2.6 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

3 MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.7 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the commission received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, under IFRS 9 – an ECL provision.

The commission received is recognised in the profit or loss in net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 13 and 28.

3.2.8 Financial liabilities

Under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The amount presented separately in OCI related to changes in own credit risk of a designated financial liability at FVTPL are not recycled to profit or loss, even when the liability is derecognised and the amounts are paid. Instead, own credit gains and losses should be reclassified to retained earnings within equity upon derecognition of the relevant liability.

3.2.9 Derivative financial instruments and hedging activities

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

i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
ii. hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
iii. hedges of a net investment in a foreign operation (net investment hedge).

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the statement of profit or loss and other comprehensive income within 'Other operating income'.

Hedge documentation, effectiveness assessment, and discontinuation accounting disclosures are provided in Note 3.10.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the profit or loss in other operating income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the profit or loss in other operating income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If

3 MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.9 Derivative financial instruments and hedging activities (continued)

the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the profit or loss.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other operating income in the profit or loss.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the profit or loss. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

3.3 Reclassifications

The Bank does not reclassify its financial assets subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2023 and 2022.

3.4 Derecognition of the financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

3 MATERIAL ACCOUNTING POLICIES (continued)

3.5 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, 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 or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

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 the consideration paid is recognised in profit or loss. 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 derecognition, 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 profit or loss. 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's 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.

3.6 Impairment of financial assets

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition which are measured as 12-month ECL.

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.

3 MATERIAL ACCOUNTING POLICIES (continued)

3.6 Impairment of financial assets (continued)

3.6.1 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 Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

3.6.2 Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2019, the Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9 as they are carried at fair value.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss) (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 month ECL).

The 12 month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12 month ECL's are calculated either on an individual basis or on a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its financing exposure into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1

When financing is first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2.

Stage 2

When a financing exposure has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 financing exposure also include facilities, where the credit risk has improved and the financing exposure has been reclassified from Stage 3.

Stage 3

Financing exposure considered credit-impaired. The Bank records an allowance for the LTECLs.

At initial recognition of a financial asset, the Bank recognises a loss allowance equal to 12-month expected credit losses. After initial recognition, the three stages under the proposals would be applied as follows:

3.6.3 The calculation of ECLs

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that are expected to be received.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

3 MATERIAL ACCOUNTING POLICIES (continued)

3.6 Impairment of financial assets (continued)

3.6.3 The calculation of ECLs (continued)

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- 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, including repayments of principal and interest/profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest/profit from missed payments.
- 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 Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD.

3.6.4 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 amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision, in other liabilities;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision in other liabilities; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

3.6.5 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

3.6.6 Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years for corporate and seven years for retail products.

3.7 Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- 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;
- it is becoming probable that the borrower will enter Bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Notes to the Financial Statements as at 31 December 2023

3 MATERIAL ACCOUNTING POLICIES (continued)

3.7 Credit-impaired financial assets (continued)

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is 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 creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3.8 Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

3.9 Hedge documentation, effectiveness assessment, and discontinuation

At the inception of the hedge, the Bank formally designates and documents the hedging relationship to which the Bank wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Bank will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio). Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and is therefore only forward-looking.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item.

When the hedging instrument or instruments have been sold or terminated, or when a hedging relationship no longer meets the risk management objective or the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

The Bank performs a hedge effectiveness assessment in a similar manner as at the inception of the hedging relationship and subsequently on every reporting period.

A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation any subsequent changes in fair value of the hedging instrument are recognised in profit or loss. For

3 MATERIAL ACCOUNTING POLICIES (continued)

3.9 Hedge documentation, effectiveness assessment, and discontinuation (continued)

effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss.

3.10 Cash and cash equivalents

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

3.11 Determination of fair values

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 35.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **Level 1** - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- **Level 2** - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- **Level 3** - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents.

The Bank also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of

3 MATERIAL ACCOUNTING POLICIES (continued)

3.11 Determination of fair values (continued)

the asset or liability and the level of the fair value hierarchy as explained above.

3.12 Property and equipment

Property and equipment are recorded at cost or deemed cost.

i. **Recognition and measurement**
Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

ii. **Subsequent costs**
Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

iii. **Depreciation**
Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

Land and capital work in progress are stated at cost and tested for impairment, if any. Depreciation is provided on a straight-line basis over the estimated useful lives of all property and equipment other than freehold land, which is deemed to have an indefinite life, and capital work in progress.

Right-of-use assets are presented together with property and equipment in the statement of financial position (refer note 8). Right of use assets are depreciated on a straight line basis over the lease term.

The rates of depreciation are based upon the following estimated useful lives:

Buildings on freehold land	25 to 40 years
Leasehold improvements	Over the lease terms 3 to 10 years
Motor vehicles	4 years
Furniture	3 to 10 years
Equipment	5 to 20 years

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

3.13 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 cost or the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the profit or loss for the year.

3.14 Deposits

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

3.15 Other borrowed funds

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

3.16 Taxation – current and deferred

Taxation is provided for based on the relevant tax laws of the respective countries, in which the Bank operates.

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

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current

3 MATERIAL ACCOUNTING POLICIES (continued)

3.16 Taxation – current and deferred (continued)

tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

i. temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
ii. temporary differences related to investments in subsidiaries to the extent that the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
iii. taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

3.17 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

3.18 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past events and the costs to settle the obligation are both probable and reliably measurable.

3.19 Perpetual Bond

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Bank's perpetual bonds are not redeemable by holders and bear an entitlement to distribution that is non-cumulative and it is governed by the terms and conditions of the Instruments. The payment of interest and/or principal is solely at the discretion of the Bank. Accordingly, they are presented within equity. Distributions thereon are recongnised in equity. The Instrument meets all requirements of AET 1 issuance mandated by Basel and Central Bank of Oman norms.

3.20 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

3 MATERIAL ACCOUNTING POLICIES (continued)

3.21 Revenue recognition (continued)

3.21 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired,

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair
- value hedges of interest rate risk; and

Other interest income presented in the statement of profit or loss and OCI includes interest income on lease receivables. Interest expense presented in the statement of profit or loss and OCI includes:

3 MATERIAL ACCOUNTING POLICIES (continued)

3.21 Revenue recognition (continued)

- financial liabilities measured at amortised cost;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
- interest expense on lease liabilities.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income. Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income and from other financial instruments at FVTPL. Cash flows related to capitalised interest are presented in the statement of cash flows consistently with interest cash flows that are not capitalised.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Bank to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Bank based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control over a product or service to a customer. Fee income can be divided into the following two categories:

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

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

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

Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVTPL and also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

Fee income from providing transaction services

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

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all fair value changes.

3 MATERIAL ACCOUNTING POLICIES (continued)

3.21 Revenue recognition (continued)

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies under IFRS 15
Retail and corporate Banking service	The Bank provides Banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate Banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is rec-ognised at the point in time when the transaction takes place.
Investment Banking service	The Bank's investment Banking segment provides various finance-related services, including loan administration and agency services, administration of a loan syndication, execution of client transactions with exchanges and securities underwriting. Fees for ongoing services are charged annually at the end of the calendar year to the customer's account. However, if a customer terminates the contract before 31 December, then on termination it is charged the fee for the services performed to date. Transaction-based fees for administration of a loan syndication, execution of transactions, and securities underwriting are charged when the transaction takes place.	Revenue from administrative agency services is recognised over time as the services are provided. The amounts to be collected from customers on 31 December are recognised as trade receivables. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Asset management service	The Bank provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis. In addition, the Bank charges a non-refundable up-front fee when opening an account.	Revenue from asset management services is recognised over time as the services are provided. Non-refundable up-front fees give rise to material rights for future services and are recognised as revenue over the period for which a customer is expected to continue receiving asset management services.

3.22 Repurchase and resale agreements

Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counter party liability for amounts received under these agreements is included in due to Banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in deposits with Banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

3.23 Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3 MATERIAL ACCOUNTING POLICIES (continued)

3.23 Leases (continued)

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office property the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office property.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

i. Fixed payments, including in-substance fixed payments;
ii. Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
iii. amounts expected to be payable under a residual value guarantee; and
iv. the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

3.24 Staff terminal benefits

Contribution to a defined contribution retirement plan for Omani employees, in accordance with the Oman Social Insurance Scheme, is recognised as an expense in statement of profit or loss when incurred.

The Bank's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The end of service benefits for employees in UAE are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE labour laws. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law.

3.25 Segment reporting

The Bank's segmental reporting is based on the following operating segments: retail Banking, wholesale Banking, commercial Banking, funding centre and Islamic. Segment results are reported to the Chief Executive Officer of the Bank, (being the chief operating decision maker) and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3 Material Accounting Policies (continued)

3.26 Dividend on ordinary shares (continued)

3.26 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and they are deducted from the equity when they are approved by the Bank's 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 statement of financial position date.

3.27 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.

3.28 Impairment of non-financial assets

The carrying amount of the Bank's non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

3.29 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.

3.30 Foreign currency translation

i. Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.
ii. Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.
iii. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income.

3.31 Acceptances

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

3.32 Interest rate benchmark (SOFR) reform

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Bank updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis - i.e. the basis immediately before the change.

3 MATERIAL ACCOUNTING POLICIES (continued)

3.32 Interest rate benchmark (SOFR) reform (continued)

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Bank first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applies the policies on accounting for modifications set out above to the additional changes.

4 CASH AND BALANCES WITH CENTRAL BANKS

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
99,629	**90,551**	Cash	**34,862**	38,357
578,524	**958,719**	Other balances with Central Banks	**369,107**	222,732
678,153	**1,049,270**	**Cash and cash equivalents**	**403,969**	261,089
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
679,452	**1,050,569**	**Cash and balances with Central Banks**	**404,469**	261,589

i. At 31 December 2023, cash and balances with Central Bank of Oman included balances amounting to RO 500,000 (31 December 2022: RO 500,000) as capital deposit. This deposit cannot be withdrawn without the Central Bank of Oman approval.
ii. Minimum cash reserve to be maintained with Central Bank of Oman as of 31 December 2023 is 3% (2022: 3%) of total customer's deposits and for Central Bank of UAE, is 1% (2022: 1%) of time deposits and 11% (2022: 7%) of all other deposits.
iii. ECL on the cash and balances with Central Banks is not material and accordingly no adjustment has been accounted by the Bank. All the exposures are related to stage 1.

5 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
11,558	**32,499**	Loans and advances to Banks	**12,512**	4,450
195,101	**496,826**	Placement with Banks	**191,278**	75,114
103,159	**312,917**	Demand balances	**120,473**	39,716
309,818	**842,242**	**DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENT**	**324,263**	119,280
(52)	**(130)**	Less: allowance for credit losses	**(50)**	(20)
309,766	**842,112**	**DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENT (NET)**	**324,213**	119,260

3 MATERIAL ACCOUNTING POLICIES (continued)

5 Due from banks and other money market placements (net) (continued)

Movement in allowances for the credit losses is set out below:

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
223	**52**	Balance at beginning of year	**20**	86
(171)	**78**	Provided / (released) during the year	**30**	(66)
52	**130**	**Balance at end of year**	**50**	20

The credit quality and the maximum exposure to credit risk based on Bank's internal credit rating system and the year-end staging classification is disclosed in note 32.1 to the financial statements.

6 LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS (NET)

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
175,034	**178,813**	Overdrafts	**68,843**	67,388
3,725,171	**3,908,319**	Personal loans	**1,504,703**	1,434,191
132,275	**142,384**	Loans against trust receipts	**54,818**	50,926
26,673	**28,182**	Bills discounted	**10,850**	10,269
5,063,949	**5,232,195**	Term loans, Islamic financing and others	**2,014,395**	1,949,620
9,123,102	**9,489,893**	**GROSS LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS FOR CUSTOMERS**	**3,653,609**	3,512,394
(412,195)	**(409,566)**	Allowance for credit losses	**(157,683)**	(158,695)
8,710,907	**9,080,327**	**NET LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS FOR CUSTOMERS**	**3,495,926**	3,353,699

Gross Loans, advances and Islamic financing assets for customers include RO 78 million (USD 203 million) due from related parties at 31 December 2023 (31 December 2022 – RO 142 million – USD 368 million) (refer note 29).

The movement in the provision for impairment of loans, advances and Islamic financing assets for customers is set out below:

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
392,839	**412,195**	Balance at beginning of year	**158,695**	151,243
92,743	**80,356**	Provided during the year	**30,937**	35,706
(10,283)	**(18,429)**	Recovered/ released during the year	**(7,095)**	(3,959)
(63,104)	**(64,556)**	Written off during the year	**(24,854)**	(24,295)
412,195	**409,566**	**BALANCE AT END OF YEAR**	**157,683**	158,695

6 Loans, advances and islamic financing assets (net) (continued)

Provided during the period includes contractual interest reserved for RO 9.12 million (31 December 2022 – RO 8.92 million).

Recovered/released during the period includes recovery of reserved interest for RO 4.07 million (31 December 2022 – RO 1.76 million).

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

As of 31 December 2023, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 163 million (31 December 2022 – RO 173 million).

The credit quality and the maximum exposure to credit risk based on Bank's internal credit rating system and the year-end staging classification is disclosed in note 32.1 to the financial statements.

The table below analyses the concentration of loans, advances and Islamic financing assets by various sectors.

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
3,725,171	**3,908,319**	Personal	**1,504,703**	1,434,191
884,645	**786,883**	Service	**302,950**	340,588
602,348	**714,413**	Transport and communication	**275,049**	231,904
607,000	**633,704**	Financial institutions	**243,976**	233,695
551,135	**619,545**	Electricity, gas and water	**238,525**	212,187
683,785	**549,506**	Government	**211,560**	263,257
483,205	**503,166**	Manufacturing	**193,719**	186,034
392,021	**500,101**	Mining and quarrying	**192,539**	150,928
356,530	**429,091**	Construction	**165,200**	137,264
397,597	**427,106**	Wholesale and retail trade	**164,436**	153,075
256,759	**234,415**	Others	**90,249**	98,852
160,896	**161,278**	Import trade	**62,092**	61,945
22,010	**22,366**	Agriculture	**8,611**	8,474
9,123,102	**9,489,893**	**TOTAL**	**3,653,609**	3,512,394

The geographic distribution of loans, advances and Islamic financing assets based on the location of the borrower is as follows:

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
8,795,686	**9,206,402**	Sultanate of Oman	**3,544,465**	3,386,339
302,416	**265,057**	United Arab Emirates	**102,047**	116,430
25,000	**18,434**	Others	**7,097**	9,625
9,123,102	**9,489,893**	**TOTAL**	**3,653,609**	3,512,394

7 FINANCIAL INVESTMENTS

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
		Investments measured at Fair value through profit and loss (FVTPL)		
3,969	**4340**	Quoted investments - Oman	**1,671**	1,528
894	**470**	Quoted investments - foreign	**181**	344
6,283	**6,714**	Unquoted Investments in funds	**2,585**	2,419
11,146	**11,524**	**TOTAL FVTPL INVESTMENTS**	**4,437**	4,291
		INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)		
		FVOCI – Equity investments		
49,506	**87,948**	Quoted investments - Oman	**33,860**	19,060
74,530	**72,873**	Quoted investments - foreign	**28,056**	28,694
124,036	**160,821**	**TOTAL FVOCI INVESTMENTS**	**61,916**	47,754
		INVESTMENTS MEASURED AT AMORTISED COST		
602,506	**592,321**	Government development bonds - Oman	**228,044**	231,965
44,886	**57,901**	Government sukuk - Oman	**22,292**	17,281
74,104	**115,842**	Quoted investments - Oman	**44,599**	28,530
-	**41,177**	Quoted investments- Foreign	**15,853**	-
194,805	**210,390**	Treasury Bills	**81,000**	75,000
916,301	**1,017,631**	**TOTAL – AMORTISED COST**	**391,788**	352,776
1,051,483	**1,189,976**	**TOTAL FINANCIAL INVESTMENTS**	**458,141**	404,821
(1,127)	**(1,366)**	**Less: Impairment**	**(526)**	(434)
1,050,356	**1,188,610**	**TOTAL FINANCIAL INVESTMENTS**	**457,615**	404,387

Movement in allowances for the credit losses for debt securities at fair value through other comprehensive income and amortised cost:

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
1,229	**1,127**	Balance at beginning of year	**434**	473
(102)	**239**	Provided / (released) during the year	**92**	(39)
1,127	**1,366**	**BALANCE AT END OF YEAR**	**526**	434

7 FINANCIAL INVESTMENTS (continued)

Details of significant investments

Details of investments exceeding 10% of the carrying value of the Bank's investment portfolio are as follows:

Bank's portfolio	Carrying value		Bank's portfolio	Carrying value
%	USD'000	2023	%	RO'000
55%	**650,222**	Government Development Bonds-Oman	**55%**	**250,336**
18%	**210,390**	Treasury Bills	**18%**	**81,000**
		2022		
62%	647,392	Government Development Bonds-Oman	62%	249,246
19%	194,805	Treasury Bills	19%	75,000

In 2023, the Bank received dividends of RO 2.26 million from its FVOCI equities (2022: RO 1.60 million for FVOCI equities), recorded as other operating income.

The fair value of the Bank's debt instruments measured at FVOCI by credit risk, based on the Bank's internal credit rating system and year-end stage classification are disclosed in note 32.1 to the financial statements.

The credit rating profile of investment debt securities, based on the lowest rating assigned by the major international rating agencies, was as follows:

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
59,104	**157,019**	Rated	**60,452**	22,755
15,000	**-**	Unrated	**-**	5,775
842,197	**860,612**	Sovereign	**331,336**	324,246
916,301	**1,017,631**		**391,788**	352,776

The movement in financial investment are summarised below:

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
1,161,501	**1,050,356**	Balance at beginning of year	**404,387**	447,178
133,291	**240,182**	Additions	**92,470**	51,317
(255,452)	**(108,122)**	Disposals and redemption	**(41,627)**	(98,349)
2,743	**3,875**	Gain from changes in Fair Value	**1,492**	1,056
102	**(239)**	(Provision) / reversal of impairment Losses	**(92)**	39
189	**(2,741)**	(Loss) / gain on sale – FVOCI	**(1,055)**	73
1,691	**3,273**	Amortization of discount/(premium)	**1,260**	651
6,291	**2,026**	Profit on investments at FVTPL and amortised cost	**780**	2,422
1,050,356	**1,188,610**	BALANCE AT END OF YEAR	**457,615**	404,387

During the year, the Bank has disposed of amortised cost debt securities, considering the regulatory guidelines.

8 PROPERTY AND EQUIPMENT

	Freehold Land, buildings and leasehold improvements	Motor vehicles, furniture and equipment	Capital work in progress	Right of use assets	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Carrying amount:					
Balance as at 1 January 2023, net of accumulated	**43,833**	**10,657**	**721**	**1,879**	**57,090**
Depreciation					
Additions	**188**	**1,596**	**1,757**	**1,564**	**5,105**
Disposals	**(195)**	**(2)**	**(6)**	**-**	**(203)**
Transfers	**953**	**259**	**(1,212)**	**-**	**-**
Depreciation	**(1,440)**	**(3,041)**	**-**	**(1,618)**	**(6,099)**
Balance at 31 December 2023, net of accumulated depreciation	**43,339**	**9,469**	**1,260**	**1,825**	**55,893**
At cost	**61,942**	**50,325**	**1,260**	**3,954**	**117,481**
Accumulated depreciation	**(18,603)**	**(40,856)**	**-**	**(2,129)**	**(61,588)**
NET CARRYING VALUE AT 31 DECEMBER 2023	**43,339**	**9,469**	**1,260**	**1,825**	**55,893**
NET CARRYING VALUE AT 31 DECEMBER 2023 – USD'000	**112,569**	**24,595**	**3,273**	**4,740**	**145,177**
Carrying amount:					
Balance as at 1 January 2022, net of accumulated	44,553	11,572	1,109	2,658	59,892
Depreciation					
Additions	4	903	1,260	938	3,105
Disposals	-	(3)	(40)	-	(43)
Transfers	544	1,064	(1,608)	-	-
Depreciation	(1,268)	(2,879)	-	(1,717)	(5,864)
Balance at 31 December 2022, net of accumulated depreciation	43,833	10,657	721	1,879	57,090
At cost	61,243	48,693	721	4,355	115,012
Accumulated depreciation	(17,410)	(38,036)	-	(2,476)	(57,922)
NET CARRYING VALUE AT 31 DECEMBER 2022	43,833	10,657	721	1,879	57,090
NET CARRYING VALUE AT 31 DECEMBER 2022 – USD'000	113,851	27,681	1,873	4,881	148,286

Freehold land and buildings and leasehold improvements include land at a cost of RO 8.56 million – USD 22.22 million (2022 – RO 8.56 million – USD 22.22 million) which is not depreciated.

The Bank leases a number of branches and office premises. The leases run between 1 year to 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated periodically to reflect market rentals.

The Bank also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Bank has not recognised right-of-use assets and lease liabilities for these leases.

9 OTHER ASSETS

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
93,634	110,402	Interest receivable and others	42,505	36,049
54,148	36,395	Positive fair value of derivatives (note 36)	14,012	20,847
106,906	71,099	Customers' indebtedness for acceptances	27,373	41,159
254,688	217,896		83,890	98,055

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
634,626	1,028,792	Borrowings	396,085	244,331
45,226	44,016	Demand balances	16,946	17,412
679,852	1,072,808		413,031	261,743

11 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
3,028,098	3,123,335	Current accounts	1,202,484	1,165,818
1,570,934	1,453,982	Savings accounts	559,783	604,810
3,316,350	4,703,288	Term deposits	1,810,766	1,276,794
7,915,382	9,280,605		3,573,033	3,047,422

12 EURO MEDIUM TERM NOTES

The bank had established Euro medium term notes (EMTN) programme for USD 1,500 million. These Bonds were listed in the Irish Stock Exchange and governed by English law. During the year 2023, EMTN of RO 192.5 million (USD 500 million) matured on 25 September 2023. As at reporting date, total outstanding is Nil (31 December 2022 - RO 192.5 million - USD 500 million).

13 OTHER LIABILITIES

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
175,180	239,166	Interest payable and others	92,080	67,445
106,906	71,099	Liabilities under acceptances	27,373	41,159
63,208	36,281	Negative fair value of derivatives (note 36)	13,968	24,335
6,434	11,655	Allowances for credit losses for loan commitments and financial guarantees	4,487	2,477
5,039	5,969	Staff entitlements	2,298	1,940
3,455	3,564	Lease liabilities	1,372	1,330
1,427	2,196	Deferred tax liability (note 14)	845	549
361,649	369,930		142,423	139,235

Staff entitlements are as follows:

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
4,161	4,488	End of service benefits	1,728	1,602
878	1,481	Other liabilities	570	338
5,039	5,969	TOTAL	2,298	1,940

Movement in the lease liabilities:

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
4,548	3,455	Balance at beginning of year	1,330	1,751
2,676	5,844	Additions during the year	2,250	1,030
156	135	Finance charges on lease	52	60
(3,925)	(5,870)	Lease payments	(2,260)	(1,511)
3,455	3,564	BALANCE AT YEAR END	1,372	1,330

Maturity analysis of lease liabilities:

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
2,743	3,330	1 to 5 years	1,282	1,056
712	234	Over 5 years	90	274
3,455	3,564	BALANCE AT YEAR END	1,372	1,330

13 OTHER LIABILITIES (continued)

Movement in the allowance for credit losses - non-funded loans, advances and financing activities for customers:

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
6,795	**6,434**	Balance at beginning of year	**2,477**	2,616
(361)	**5,221**	Provided / (released) during the year	**2,010**	(139)
6,434	**11,655**	**BALANCE AT YEAR END**	**4,487**	2,477

14 TAXATION

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
		Tax expense		
23,946	**26,231**	Current year	**10,099**	9,219
109	**343**	Deferred tax adjustment	**132**	42
24,055	**26,574**		**10,231**	9,261

The Bank is liable to income tax at the following rates:

- Sultanate of Oman: 15% of consolidated taxable income (2022: 15% of consolidated taxable income)
- United Arab Emirates: 20% of taxable income (2022: 20% of taxable income)
- Egypt: 22.5% of taxable income (2022: 22.5% of taxable income)

Set out below is reconciliation between income tax calculated on accounting profits with income tax expense for the year:

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
149,278	**177,298**	Accounting profit	**68,260**	57,472
22,392	**26,595**	Tax at applicable rate	**10,239**	8,621
275	**177**	Non-deductible expenses	**68**	106
(1,023)	**(771)**	Tax exempt revenues	**(297)**	(394)
2,302	**230**	Others	**89**	886
23,946	**26,231**		**10,099**	9,219

The Bank's liabilities for taxation in the Sultanate of Oman have been assessed and agreed up to the year ended 31 December 2018.

Management believes that additional taxes, if any, in respect of open tax assessments would not be significant to the Bank's financial position as at 31 December 2023.

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The Bank's liability in respect of its branches in UAE has been agreed with the tax authorities up to 31 December 2022.

14 TAXATION (continued)

Tax liability

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
23,946	**26,231**	Through comprehensive income	**10,099**	9,219
17,495	**23,057**	Through prior years	**8,877**	6,736
68	**-**	Through retained earnings	**-**	26
41,509	**49,288**		**18,976**	15,981

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
(79)	**(426)**	Deductible temporary differences relating to provisions	**(164)**	(30)
(1,348)	**(1,770)**	FVOCI investments	**(681)**	(519)
(1,427)	**(2,196)**		**(845)**	(549)

Movement of deferred tax liability

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
(1,328)	**(1,427)**	Balance at the beginning of the year	**(549)**	(511)
(109)	**(343)**	Provided during the year	**(132)**	(42)
10	**(426)**	Tax effect of equity investments at FVOCI - net change in fair value	**(164)**	4
(1,427)	**(2,196)**		**(845)**	(549)

15 SHARE CAPITAL

The Authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (2022 – 2,000,000,000 of RO 0.100 each). At 31 December 2023, 1,625,946,355 shares of RO 0.100 each (2022 – 1,625,946,355 shares of RO 0.100 each) have been issued and fully paid.

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

	2023		2022	
	No.of shares '000	**% Holding**	No.of shares '000	% Holding
The Commercial Bank of Qatar	**567,453**	**34.90%**	567,453	34.90%
Suhail Salim Abdullah Al Mukhaini Bahwan	**239,805**	**14.75%**	239,805	14.75%
Civil Service Employee Pension Fund	**187,904**	**11.56%**	187,715	11.54%

The percentage shareholding is calculated based on the total shares of the Bank outstanding at the reporting date.

16 SHARE PREMIUM

The share premium of RO 34.47 million (USD 89.52 million) (2022 – RO 34.47 million (USD 89.52 million)) represents the premium collected on issue of shares by the bank through a private placement in prior years.

17 LEGAL RESERVE

The legal reserve, which is not available for distribution, is accumulated in accordance with the requirements of the article of 274 of the Commercial Companies Law of Oman and the Union Law No. 10 of UAE. The annual appropriations must not be less than 10% of the profit for the year until such time that the respective reserve account balance amounts to at least one third of the share capital in Oman and half of the branch capital in UAE. At 31 December 2023, the legal reserve of Oman has reached one third of the issued capital.

18 OTHER RESERVES

	FVOCI	Impairment reserve	Total
	RO'000	RO'000	RO'000
At 1 January 2023	(4,190)	10,580	6,390
Net movement on FVOCI	1,656	-	1,656
Tax effect of net results on FVOCI	(164)	-	(164)
AT 31 DECEMBER 2023	**(2,698)**	**10,580**	**7,882**
AT 31 DECEMBER 2023 (USD'000S)	**(7,008)**	**27,481**	**20,473**

	FVOCI	Impairment reserve	Total
	RO'000	RO'000	RO'000
At 1 January 2022	(5,246)	10,580	5,334
Net movement on FVOCI	1,052	-	1,052
Tax effect of net results on FVOCI	4	-	4
AT 31 DECEMBER 2022	(4,190)	10,580	6,390
AT 31 DECEMBER 2022 (USD'000S)	(10,884)	27,481	16,597

The impairment reserve represents excess of impairment allowance (net of tax) calculated as per CBO norms and IFRS 9. Based on current regulation, there are no changes to the reserve in the years 2023 and 2022. The reserve is not available for distribution to the shareholders.

19 TIER 1 PERPETUAL BOND

The Bank has issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities") with details mentioned in the table below. The Tier 1 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 Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its sole discretion on any interest payment date on or after the first call date subject to the prior consent of the Central Bank of Oman.

Issuance Month/Year	Issued Amount	Coupon Rate
April 2021	USD 300 million (OMR 115.5 million)	Fixed interest rate of 8.00% with a reset after 5 years
November 2022	USD 134.11 million (OMR 51.63 million)	Fixed interest rate of 6.75% with a reset after 5 years

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

20 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.0085 per share totalling RO 13.8 million (USD 0.022 per share totalling USD 35.9 million) for the year ended 31 December 2023 [2022: RO 0.0074 per share totalling RO 12 million (USD 0.019 per share totalling USD 31.3 million)], which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2024.

21 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

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

21.1 Contingent liabilities

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

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
728,052	**714,881**	Guarantees	**275,229**	280,300
113,460	**101,901**	Documentary letters of credit	**39,232**	43,682
841,512	**816,782**		**314,461**	323,982

The table below analyses the concentration of contingent liabilities by economic sector

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
226,725	**228,962**	Construction	**88,150**	87,289
136,548	**146,875**	Service	**56,547**	52,571
149,701	**134,933**	Financial Institutions	**51,949**	57,635
121,696	**110,626**	Wholesale and Retail Trade	**42,591**	46,853
86,902	**91,626**	Manufacturing	**35,276**	33,457
63,332	**64,597**	Transport and Communication	**24,870**	24,383
22,917	**24,899**	Electricity, Gas & Water	**9,586**	8,823
8,686	**5,597**	Others	**2,155**	3,344
11,584	**5,397**	Agriculture	**2,078**	4,460
12,865	**2,714**	Mining & Quarrying	**1,045**	4,953
556	**556**	Personal	**214**	214
841,512	**816,782**		**314,461**	323,982

21 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

21.2 Commitments

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
520,543	280,857	Undrawn commitment	108,130	200,409
2,470	4,195	Capital expenditure	1,615	951

21.3 Branches

The Bank has deposited in the countries concerned, the following amounts of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the respective Central Banks

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
106,282	106,282	UAE branch	40,918	40,918
50,000	50,000	Egypt branch	19,250	19,250
156,282	156,282		60,168	60,168

21.4 Legal claims

By nature of the Banking sector, litigation whether by or against the Bank is expected. In order to properly manage such litigation, the Bank has in place effective mechanism and controls. The Bank does not have any major/ material litigation pending in a court of law in Oman or outside either instituted by or against the Bank, other than normal cases filed by or against customers in the normal course of business. However, there are certain unresolved legal claims filed against the Bank which are not expected to have any significant implication on the Bank's financial statements.

21.5 Fiduciary assets

The Bank acts as fund manager and investment advisor to investment funds. For all funds managed by the Bank, the investors (whose number ranges from 30 to 100) are able to vote by simple majority to remove the Bank as fund manager without cause, and the Bank's aggregate economic interest is in each case less than 5% per annum. As a result, the Bank has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

The Bank's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals. The aggregate amounts of funds managed, which are not included in the Bank's statement of financial position, are as follows:

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
280,369	330,636	FUND UNDER MANAGEMENT	127,295	107,942

21 CONTINGENT LIABILITIES AND COMMITMENTS (continued))

21.5 Fiduciary assets (continued)

Involvement with unconsolidated structured entities

The following table sets out an analysis of the carrying amounts of interests held by the Bank in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
1,514	1,543	CARRYING AMOUNT OF FUNDS INVESTED	594	583

The Bank considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The following table sets out information in respect of structured entities that the Bank sponsors, but in which the Bank does not have an interest.

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
27,093	30,860	FUND UNDER MANAGEMENT	11,881	10,431
780	780	COMMISSION AND FEES	300	300

22 INTEREST INCOME

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
423,925	497,613	Interest from customers	191,581	163,211
5,829	30,468	Interest from banks	11,730	2,244
45,971	59,849	Interest from investments	23,042	17,699
475,725	587,930		226,353	183,154

Interest bearing assets have an average effective annual rate of 5.91% per annum for the year ended 31 December 2023 (31 December 2022 – 5.15% per annum).

23 INTEREST EXPENSE

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
161,527	232,148	Interest to customers	89,377	62,188
28,356	51,031	Interest to banks	19,647	10,917
31,255	33,413	Interest on EMTN	12,864	12,033
221,138	316,592		121,888	85,138

For the year ended 31 December 2023, the average effective annual cost of funds was 3.50% per annum (31 December 2022 – 2.57% per annum).

24 FEE AND COMMISSION INCOME

The commission and fee income shown in the profit or loss is RO 21.25 million (USD 55.19 million) for the year ended 31 December 2023 (31 December 2022 – RO 20.65 million (USD 53.63 million)). Refer note 34.

25 OTHER OPERATING INCOME

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
14,816	**17,104**	Net gains from foreign exchange dealings	**6,585**	5,704
4,169	**5,865**	Dividend income	**2,258**	1,605
6,291	**2,026**	Profit on investments at FVTPL	**780**	2,422
11,223	**11,566**	Miscellaneous income	**4,453**	4,321
36,499	**36,561**		**14,076**	14,052

26 STAFF COSTS

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
70,901	**71,395**	Employees' salaries	**27,487**	27,297
7,104	**6,494**	Contribution to social insurance schemes	**2,500**	2,735
17,353	**21,363**	Other staff costs	**8,225**	6,681
95,358	**99,252**		**38,212**	36,713

The Bank employed 1,413 employees as of 31 December 2023 (31 December 2022 - 1,432).

27 OTHER OPERATING EXPENSES

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
12,504	**11,883**	Establishment costs	**4,575**	4,814
32,855	**32,668**	Operating and administration costs	**12,577**	12,649
1,236	**1,158**	Directors' remuneration and sitting fees	**446**	476
46,595	**45,709**		**17,598**	17,939

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2023:

Impairment charge and provision held as of 31 December 2023

As per CBO Norms	As per IFRS 9	Difference	Particular	As per CBO Norms	As per IFRS 9	Difference
USD'000	**USD'000**	**USD'000**		**RO'000**	**RO'000**	**RO'000**
	40,774	**NA**	Impairment Loss charged to profit and loss	**-**	**15,698**	**NA**
449,693	**422,717**	**(26,976)**	Provisions required	**173,131**	**162,746**	**(10,385)**
-	**4.5**	**-**	Gross non-performing loan ratio (percentage)	**-**	**4.5**	**-**
-	**3.9**	**-**	Net non-performing loan ratio (percentage)	**-**	**3.9**	**-**

28 Classification and Measurement of Financial Instruments (continued)

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2023:

Mapping of IFRS 9 and CBO norms

Amounts in 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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	**2,735,344**	**37,567**	**5,718**	**31,849**	**2,729,626**	**-**
	Stage 2	**579,301**	**6,143**	**8,852**	**(2,709)**	**570,449**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**
SUBTOTAL		**3,314,645**	**43,710**	**14,570**	**29,140**	**3,300,075**	**-**
Special Mention	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**175,480**	**1,811**	**42,930**	**(41,119)**	**132,550**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**
SUBTOTAL		**175,480**	**1,811**	**42,930**	**(41,119)**	**132,550**	**-**
Substandard	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**12,188**	**3,011**	**3,847**	**(669)**	**8,341**	**167**
SUBTOTAL		**12,188**	**3,011**	**3,847**	**(669)**	**8,341**	**167**
Doubtful	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**22,833**	**9,635**	**11,587**	**121**	**11,246**	**2,073**
SUBTOTAL		**22,833**	**9,635**	**11,587**	**121**	**11,246**	**2,073**
Loss	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**128,463**	**91,759**	**84,749**	**27,975**	**43,714**	**20,965**
SUBTOTAL		**128,463**	**91,759**	**84,749**	**27,975**	**43,714**	**20,965**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	**943,777**	**-**	**940**	**(940)**	**942,837**	**-**
	Stage 2	**147,976**	**-**	**2,845**	**(2,845)**	**145,131**	**-**
	Stage 3	**5,112**	**-**	**1,278**	**(1,278)**	**3,834**	**-**
SUBTOTAL		**1,096,865**	**-**	**5,063**	**(5,063)**	**1,091,802**	**-**
Total	Stage 1	**3,679,121**	**37,567**	**6,658**	**30,909**	**3,672,463**	**-**
	Stage 2	**902,757**	**7,954**	**54,627**	**(46,673)**	**848,130**	**-**
	Stage 3	**168,596**	**104,405**	**101,461**	**26,149**	**67,135**	**23,205**
	Total	**4,750,474**	**149,926**	**162,746**	**10,385**	**4,587,728**	**23,205**

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2023: (Continued)

Mapping of IFRS 9 and CBO norms

Amounts in USD'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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	7,104,789	97,576	14,853	82,723	7,089,936	-
	Stage 2	1,504,678	15,957	22,990	(7,033)	1,481,688	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		8,609,467	113,533	37,843	75,690	8,571,624	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	455,791	4,705	111,507	(106,802)	344,284	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		455,791	4,705	111,507	(106,802)	344,284	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	31,660	7,820	9,992	(1,738)	21,668	434
SUBTOTAL		31,660	7,820	9,992	(1,738)	21,668	434
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	59,306	25,025	30,095	315	29,211	5,385
SUBTOTAL		59,306	25,025	30,095	315	29,211	5,385
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	333,669	238,336	220,129	72,662	113,540	54,455
SUBTOTAL		333,669	238,336	220,129	72,662	113,540	54,455
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	2,451,368	-	2,437	(2,437)	2,448,931	-
	Stage 2	384,353	-	7,395	(7,395)	376,958	-
	Stage 3	13,278	-	3,319	(3,319)	9,959	-
SUBTOTAL		2,848,999	-	13,151	(13,151)	2,835,848	-
Total	Stage 1	9,556,157	97,576	17,290	80,286	9,538,867	-
	Stage 2	2,344,822	20,662	141,892	(121,230)	2,202,930	-
	Stage 3	437,913	271,181	263,535	67,920	174,378	60,274
	Total	12,338,892	389,419	422,717	26,976	11,916,175	60,274

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2023: (Continued)

Impairment charge and provision held as of 31 December 2022

As per CBO Norms	As per IFRS 9	Difference	Particular	As per CBO Norms	As per IFRS 9	Difference
USD'000	USD'000	USD'000		RO'000	RO'000	RO'000
	52,595	NA	Impairment Loss charged to profit and loss	-	20,249	NA
472,498	419,808	(52,690)	Provisions required	181,912	161,626	(20,286)
-	4.93	-	Gross non-performing loan ratio (percentage)	-	4.93	-
-	4.35	-	Net non-performing loan ratio (percentage)	-	4.35	-

Mapping of IFRS 9 and CBO norms

Amounts in 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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	2,801,141	37,270	5,485	31,785	2,795,656	-
	Stage 2	345,697	3,883	8,599	(4,716)	337,098	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		3,146,838	41,153	14,084	27,069	3,132,754	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	192,444	1,966	34,888	(32,922)	157,556	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		192,444	1,966	34,888	(32,922)	157,556	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	7,976	2,072	2,306	(154)	5,670	80
SUBTOTAL		7,976	2,072	2,306	(154)	5,670	80
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	24,027	10,864	10,279	1,811	13,748	1,226
SUBTOTAL		24,027	10,864	10,279	1,811	13,748	1,226
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	141,109	104,532	97,138	27,413	43,971	20,019
SUBTOTAL		141,109	104,532	97,138	27,413	43,971	20,019
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	739,553	-	909	(909)	738,644	-
	Stage 2	108,531	-	2,022	(2,022)	106,509	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		848,084	-	2,931	(2,931)	845,153	-
Total	Stage 1	3,540,694	37,270	6,394	30,876	3,534,300	-
	Stage 2	646,672	5,849	45,509	(39,660)	601,163	-
	Stage 3	173,112	117,468	109,723	29,070	63,389	21,325
	Total	4,360,478	160,587	161,626	20,286	4,198,852	21,325

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2023: (continued)
Impairment charge and provision held as of 31 December 2022 (continued)

Mapping of IFRS 9 and CBO norms (continued)

Amounts in USD'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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	7,275,691	96,805	14,246	82,559	7,261,445	-
	Stage 2	897,914	10,086	22,335	(12,249)	875,579	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		8,173,605	106,891	36,581	70,310	8,137,024	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	499,855	5,106	90,618	(85,512)	409,237	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		499,855	5,106	90,618	(85,512)	409,237	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	20,717	5,382	5,990	(400)	14,727	208
SUBTOTAL		20,717	5,382	5,990	(400)	14,727	208
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	62,408	28,218	26,699	4,703	35,709	3,184
SUBTOTAL		62,408	28,218	26,699	4,703	35,709	3,184
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	366,517	271,512	252,307	71,202	114,210	51,997
SUBTOTAL		366,517	271,512	252,307	71,202	114,210	51,997
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,920,917	-	2,361	(2,361)	1,918,556	-
	Stage 2	281,899	-	5,252	(5,252)	276,647	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		2,202,816	-	7,613	(7,613)	2,195,203	-
Total	Stage 1	9,196,608	96,805	16,607	80,198	9,180,001	-
	Stage 2	1,679,668	15,192	118,205	(103,013)	1,561,463	-
	Stage 3	449,642	305,112	284,996	75,505	164,646	55,389
	Total	11,325,918	417,109	419,808	52,690	10,906,110	55,389

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2023:

Restructured loans

Amounts in RO'000

Asset classifi-cation as per CBO's Norms	Asset classi-fication as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provi-sion re-quired and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	**199,834**	**2,060**	**33,403**	**(31,343)**	**166,431**	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		**199,834**	**2,060**	**33,403**	**(31,343)**	**166,431**	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**32,665**	**22,731**	**19,158**	**7,527**	**13,507**	**3,954**
SUBTOTAL		**32,665**	**22,731**	**19,158**	**7,527**	**13,507**	**3,954**
Total	Stage 1	-	-	-	-	-	-
	Stage 2	**199,834**	**2,060**	**33,403**	**(31,343)**	**166,431**	-
	Stage 3	**32,665**	**22,731**	**19,158**	**7,527**	**13,507**	**3,954**
	Total	**232,499**	**24,791**	**52,561**	**(23,816)**	**179,938**	**3,954**

Restructured loans

Amounts in USD'000

Asset classifi-cation as per CBO's Norms	Asset classi-fication as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provi-sion re-quired and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	**519,049**	**5,351**	**86,761**	**(81,410)**	**432,288**	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		**519,049**	**5,351**	**86,761**	**(81,410)**	**432,288**	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**84,844**	**59,042**	**49,761**	**19,551**	**35,083**	**10,270**
SUBTOTAL		**84,844**	**59,042**	**49,761**	**19,551**	**35,083**	**10,270**
Total	Stage 1	-	-	-	-	-	-
	Stage 2	**519,049**	**5,351**	**86,761**	**(81,410)**	**432,288**	-
	Stage 3	**84,844**	**59,042**	**49,761**	**19,551**	**35,083**	**10,270**
	Total	**603,893**	**64,393**	**136,522**	**(61,859)**	**467,371**	**10,270**

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2022:

Restructured loans

Amounts in RO'000

Asset classifi-cation as per CBO's Norms	Asset classi-fication as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provi-sion re-quired and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	191,792	1,978	27,428	(25,450)	164,364	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		191,792	1,978	27,428	(25,450)	164,364	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	31,532	22,508	18,919	7,110	12,613	3,521
SUBTOTAL		31,532	22,508	18,919	7,110	12,613	3,521
Total	Stage 1	-	-	-	-	-	-
	Stage 2	191,792	1,978	27,428	(25,450)	164,364	-
	Stage 3	31,532	22,508	18,919	7,110	12,613	3,521
	Total	223,324	24,486	46,347	(18,340)	176,977	3,521

Restructured loans

Amounts in USD'000

Asset classifi-cation as per CBO's Norms	Asset classi-fication as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provi-sion re-quired and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	498,161	5,138	71,242	(66,104)	426,919	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		498,161	5,138	71,242	(66,104)	426,919	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	81,901	58,462	49,140	18,467	32,761	9,145
SUBTOTAL		81,901	58,462	49,140	18,467	32,761	9,145
Total	Stage 1	-	-	-	-	-	-
	Stage 2	498,161	5,138	71,242	(66,104)	426,919	-
	Stage 3	81,901	58,462	49,140	18,467	32,761	9,145
	Total	580,062	63,600	120,382	(47,637)	459,680	9,145

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.3 Movement in expected credit losses (ECL) as at 31 December 2023

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
EXPOSURE SUBJECT TO ECL				
Loans, advances and Islamic financing assets	2,735,344	754,781	163,484	3,653,609
Financial investment (Debt)	391,788	-	-	391,788
Contingent liabilities and commitments	264,915	152,564	5,112	422,591
Due from banks and other money market placements	324,263	-	-	324,263
	3,716,310	907,345	168,596	4,792,251
OPENING BALANCE – AS AT 1 JANUARY 2023				
Loans, advances and Islamic financing assets	5,485	43,487	109,723	158,695
Financial investment (Debt)	312	122	-	434
Contingent liabilities and commitments	577	1,900	-	2,477
Due from banks and other money market placements	20	-	-	20
	6,394	45,509	109,723	161,626
NET TRANSFER BETWEEN STAGES				
Loans, advances and Islamic financing assets	233	(5,533)	5,300	-
Financial investment (Debt)	-	-	-	-
Contingent liabilities and commitments	(1,070)	1,070	-	-
Due from banks and other money market placements	-	-	-	-
	(837)	(4,463)	5,300	-
CHARGE / (RELEASE) FOR THE PERIOD (NET)				
Loans, advances and Islamic financing assets	-	13,828	10,014	23,842
Financial investment (Debt)	214	(122)	-	92
Contingent liabilities and commitments	857	(125)	1,278	2,010
Due from banks and other money market placements	30	-	-	30
	1,101	13,581	11,292	25,974
WRITE OFF FOR THE PERIOD				
Loans, advances and Islamic financing assets	-	-	(24,854)	(24,854)
	-	-	(24,854)	(24,854)
CLOSING BALANCE – AS AT 31 DECEMBER 2023				
Loans, advances and Islamic financing assets	5,718	51,782	100,183	157,683
Financial investment (Debt)	526	-	-	526
Contingent liabilities and commitments	364	2,845	1,278	4,487
Due from banks and other money market placements	50	-	-	50
	6,658	54,627	101,461	162,746

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued))

28.3 Movement in expected credit losses (ECL) as at 31 December 2023 (continued)

	Stage 1	Stage 2	Stage 3	Total
	USD'000	USD 000	USD'000	USD'000
EXPOSURE SUBJECT TO ECL				
Loans, advances and Islamic financing assets	7,104,789	1,960,469	424,635	9,489,893
Financial investment (Debt)	1,017,631	-	-	1,017,631
Contingent liabilities and commitments	688,091	396,270	13,278	1,097,639
Due from banks and other money market placements	842,242	-	-	842,242
	9,652,753	2,356,739	437,913	12,447,405
OPENING BALANCE – AS AT 1 JANUARY 2023				
Loans, advances and Islamic financing assets	14,248	112,951	284,996	412,195
Financial investment (Debt)	810	317	-	1,127
Contingent liabilities and commitments	1,497	4,937	-	6,434
Due from banks and other money market placements	52	-	-	52
	16,607	118,205	284,996	419,808
NET TRANSFER BETWEEN STAGES				
Loans, advances and Islamic financing assets	605	(14,371)	13,766	-
Financial investment (Debt)	-	-	-	-
Contingent liabilities and commitments	(2,779)	2,779	-	-
Due from banks and other money market placements	-	-	-	-
	(2,174)	(11,592)	13,766	-
CHARGE / (RELEASE) FOR THE PERIOD (NET)				
Loans, advances and Islamic financing assets	-	35,917	26,010	61,927
Financial investment (Debt)	556	(317)	-	239
Contingent liabilities and commitments	2,223	(321)	3,319	5,221
Due from banks and other money market placements	78	-	-	78
	2,857	35,279	29,329	67,465
WRITE OFF FOR THE PERIOD				
Loans, advances and Islamic financing assets	-	-	(64,556)	(64,556)
	-	-	(64,556)	(64,556)
CLOSING BALANCE – AS AT 31 DECEMBER 2023				
Loans, advances and Islamic financing assets	14,853	134,497	260,216	409,566
Financial investment (Debt)	1,366	-	-	1,366
Contingent liabilities and commitments	941	7,395	3,319	11,655
Due from banks and other money market placements	130	-	-	130
	17,290	141,892	263,535	422,717

Notes to the Financial Statements as at 31 December 2023

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.3 Movement in expected credit losses (ECL) as at 31 December 2022

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
EXPOSURE SUBJECT TO ECL				
Loans, advances and Islamic financing assets	2,801,141	538,141	173,112	3,512,394
Financial investment (Debt)	347,001	5,775	-	352,776
Contingent liabilities and commitments	415,989	102,176	6,226	524,391
Due from banks and other money market placements	119,280	-	-	119,280
	3,683,411	646,092	179,338	4,508,841
OPENING BALANCE – AS AT 1 JANUARY 2022				
Loans, advances and Islamic financing assets	9,043	32,763	109,437	151,243
Financial investment (Debt)	300	173	-	473
Contingent liabilities and commitments	908	1,708	-	2,616
Due from banks and other money market placements	86	-	-	86
	10,337	34,644	109,437	154,418
NET TRANSFER BETWEEN STAGES				
Loans, advances and Islamic financing assets	(108)	(2,716)	2,824	-
Financial investment (Debt)	-	-	-	-
Contingent liabilities and commitments	-	-	-	-
Due from banks and other money market placements	-	-	-	-
	(108)	(2,716)	2,824	-
CHARGE / (RELEASE) FOR THE PERIOD (NET)				
Loans, advances and Islamic financing assets	(3,450)	13,440	21,757	31,747
Financial investment (Debt)	12	(51)	-	(39)
Contingent liabilities and commitments	(331)	192	-	(139)
Due from banks and other money market placements	(66)	-	-	(66)
	(3,835)	13,581	21,757	31,503
WRITE OFF FOR THE PERIOD				
Loans, advances and Islamic financing assets	-	-	(24,295)	(24,295)
	-	-	(24,295)	(24,295)
CLOSING BALANCE – AS AT 31 DECEMBER 2022				
Loans, advances and Islamic financing assets	5,485	43,487	109,723	158,695
Financial investment (Debt)	312	122	-	434
Contingent liabilities and commitments	577	1,900	-	2,477
Due from banks and other money market placements	20	-	-	20
	6,394	45,509	109,723	161,626

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.3 Movement in expected credit losses (ECL) as at 31 December 2022 (continued)

	Stage 1	Stage 2	Stage 3	Total
	USD'000	USD'000	USD'000	USD'000
EXPOSURE SUBJECT TO ECL				
Loans, advances and Islamic financing assets	7,275,691	1,397,769	449,642	9,123,102
Financial investment (Debt)	901,301	15,000	-	916,301
Contingent liabilities and commitments	1,080,492	265,392	16,171	1,362,055
Due from banks and other money market placements	309,818	-	-	309,818
	9,567,302	1,678,161	465,813	11,711,276
OPENING BALANCE – AS AT 1 JANUARY 2022				
Loans, advances and Islamic financing assets	23,488	85,098	284,253	392,839
Financial investment (Debt)	779	450	-	1,229
Contingent liabilities and commitments	2,359	4,436	-	6,795
Due from banks and other money market placements	223	-	-	223
	26,849	89,984	284,253	401,086
NET TRANSFER BETWEEN STAGES				
Loans, advances and Islamic financing assets	(279)	(7,056)	7,335	-
Financial investment (Debt)	-	-	-	-
Contingent liabilities and commitments	-	-	-	-
Due from banks and other money market placements	-	-	-	-
	(279)	(7,056)	7,335	-
CHARGE / (RELEASE) FOR THE PERIOD (NET)				
Loans, advances and Islamic financing assets	(8,961)	34,909	56,512	82,460
Financial investment (Debt)	31	(133)	-	(102)
Contingent liabilities and commitments	(862)	501	-	(361)
Due from banks and other money market placements	(171)	-	-	(171)
	(9,963)	35,277	56,512	81,826
WRITE OFF FOR THE PERIOD				
Loans, advances and Islamic financing assets	-	-	(63,104)	(63,104)
	-	-	(63,104)	(63,104)
CLOSING BALANCE – AS AT 31 DECEMBER 2022				
Loans, advances and Islamic financing assets	14,248	112,951	284,996	412,195
Financial investment (Debt)	810	317	-	1,127
Contingent liabilities and commitments	1,497	4,937	-	6,434
Due from banks and other money market placements	52	-	-	52
	16,607	118,205	284,996	419,808

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

28.4 Movement in loans, advances and Islamic financing assets as at 31 December 2023

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2023	**2,801,141**	**538,141**	**173,112**	**3,512,394**
Transfer to stage 1	**4,071**	**(3,603)**	**(468)**	**-**
Transfer to stage 2	**(247,108)**	**247,525**	**(417)**	**-**
Transfer to stage 3	**(4,485)**	**(18,551)**	**23,036**	**-**
New loans, advances and Islamic financing assets	**1,104,841**	**37,491**	**-**	**1,142,332**
Recovery of loans, advances and Islamic financing assets	**(923,116)**	**(46,222)**	**(6,925)**	**(976,263)**
Write off for the period	**-**	**-**	**(24,854)**	**(24,854)**
CLOSING BALANCE - AS AT 31 DECEMBER 2023	**2,735,344**	**754,781**	**163,484**	**3,653,609**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	USD'000	**USD'000**	**USD'000**	**USD'000**
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2023	**7,275,691**	**1,397,769**	**449,642**	**9,123,102**
Transfer to stage 1	**10,574**	**(9,358)**	**(1,216)**	**-**
Transfer to stage 2	**(641,839)**	**642,922**	**(1,083)**	**-**
Transfer to stage 3	**(11,649)**	**(48,184)**	**59,833**	**-**
New loans, advances and Islamic financing assets	**2,869,717**	**97,378**	**-**	**2,967,095**
Recovery of loans, advances and Islamic financing assets	**(2,397,705)**	**(120,058)**	**(17,985)**	**(2,535,748)**
Write off for the period	**-**	**-**	**(64,556)**	**(64,556)**
Closing Balance - as at 31 December 2023	**7,104,789**	**1,960,469**	**424,635**	**9,489,893**

Movement in loans, advances and islamic financing assets as 31 December 2022

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2022	2,482,126	586,363	171,400	3,239,889
Transfer to stage 1	15,304	(14,987)	(317)	-
Transfer to stage 2	(12,986)	13,607	(621)	-
Transfer to stage 3	(8,945)	(5,739)	14,684	-
New loans, advances and Islamic financing assets	534,890	25,973	16,565	577,428
Recovery of loans, advances and Islamic financing assets	(209,248)	(67,076)	(4,304)	(280,628)
Write off for the period	-	-	(24,295)	(24,295)
CLOSING BALANCE - AS AT 31 DECEMBER 2022	2,801,141	538,141	173,112	3,512,394

	Stage 1	Stage 2	Stage 3	Total
	USD'000	USD'000	USD'000	USD'000
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2022	6,447,082	1,523,021	445,194	8,415,297
Transfer to stage 1	39,750	(38,927)	(823)	-
Transfer to stage 2	(33,730)	35,343	(1,613)	-
Transfer to stage 3	(23,233)	(14,907)	38,140	-
New loans, advances and Islamic financing assets	1,389,323	67,462	43,027	1,499,812
Recovery of loans, advances and Islamic financing assets	(543,501)	(174,223)	(11,179)	(728,903)
Write off for the period	-	-	(63,104)	(63,104)
CLOSING BALANCE - AS AT 31 DECEMBER 2022	7,275,691	1,397,769	449,642	9,123,102

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued))

28.5 Movement in impairment credit losses for the period ended 31 December 2023

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
		(Impairment)/reversal of allowances for credit losses:		
171	(78)	Due from Banks and other money market placements	(30)	66
(69,566)	(56,665)	Loans, advances and Islamic financing assets	(21,816)	(26,783)
102	(239)	Financial investments	(92)	39
361	(5,221)	Contingent liabilities and commitments	(2,010)	139
(68,932)	(62,203)	TOTAL	(23,948)	(26,539)
5,714	7,852	Recoveries and releases from provision for credit losses	3,023	2,200
10,623	13,577	Recoveries and releases from loans, advances and Islamic financing assets written off	5,227	4,090
16,337	21,429	TOTAL	8,250	6,290
(52,595)	(40,774)	NET IMPAIRMENT LOSSES	(15,698)	(20,249)

29 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank conducts transactions with certain of its directors, shareholders, senior management and companies over which they have significant interest. Principal shareholders comprise of all shareholders with holding more than 10% of the paid-up share capital and others include directors, senior management and associate companies of principal shareholders and directors. These are considered related party under regulatory requirements. The Bank engages in transactions with related parties at arm's length terms and in accordance with relevant laws and regulations. Terms of these transactions are approved by the Bank's Board and Management.

The aggregate amounts of balances with such related parties are as follows:

	2023			2022		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Loans, advances and Islamic financing assets	-	77,993	77,993	-	141,789	141,789
Customers' deposits	141,494	55,798	197,292	150,110	56,059	206,169
Due from Banks	35,106	-	35,106	4,376	-	4,376
Due to Banks	122	-	122	94	-	94
Letter of credit, guarantees and acceptance	850	11,109	11,959	985	12,723	13,708
Investment	2,630	594	3,224	2,702	541	3,243

The statement of profit or loss and other comprehensive income includes the following amounts in relation to transactions with related parties:

Interest income	53	4,284	4,337	23	7,993	8,016
Commission income	9	449	458	9	428	437
Interest expense	7,691	1,383	9,074	4,912	2,141	7,053
Other expenses	-	766	766	-	1,406	1,406

29 RELATED PARTY TRANSACTIONS (continued)

	2023			2022		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Loans, advances and Islamic financing assets	-	202,579	202,579	-	368,283	368,283
Customers' deposits	367,517	144,930	512,447	389,896	145,608	535,504
Due from Banks	91,184	-	91,184	11,366	-	11,366
Due to Banks	317	-	317	244	-	244
Letter of credit, guarantees and acceptance	2,208	28,855	31,063	2,558	33,047	35,605
Investment	6,831	1,543	8,374	7,018	1,405	8,423

The statement of profit or loss and other comprehensive income includes the following amounts in relation to transactions with related parties:

Interest income	138	11,127	11,265	60	20,761	20,821
Commission income	23	1,166	1,189	23	1,112	1,135
Interest expense	19,977	3,592	23,569	12,758	5,561	18,319
Other expenses	-	1,990	1,990	-	3,652	3,652

Details regarding senior management are set out below:

The Bank considers the personnel of Management Executive Committee to be key management personnel for the purposes of IAS 24 'Related Party Disclosures."

The balances in respect of these related parties included in the statement of financial position as at the reporting date are as follows:

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
2,797	4,579	Loans, advances and Islamic financing assets	1,763	1,077
2,906	3,649	Customers' deposits	1,405	1,119

The income and expenses in respect of these related parties included in the financial statement are as follows:

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
81	112	Interest Income	43	31
60	94	Interest Expense	36	23
8,062	10,239	Salaries and other short-term benefits	3,942	3,104
148	171	Post-employment benefits	66	57

30 BASIC AND DILUTED EARNINGS PER SHARE

	2023	2022
	RO'000	RO'000
Net Profit after tax (RO'000s)	58,029	48,211
Less: Interest on tier 1 perpetual bond	(12,725)	(9,240)
Profit attributable to shareholders	45,304	38,971
Weighted average number of shares outstanding during the year (in '000s)	1,625,946	1,625,946
BASIC AND DILUTED EARNINGS PER SHARE (RO)	**0.028**	0.024

	2023	2022
	USD'000	USD'000
Net Profit after tax (USD'000s)	150,724	125,223
Less: Interest on tier 1 perpetual bond	(33,052)	(24,000)
Profit attributable to shareholders	117,672	101,223
Weighted average number of shares outstanding during the year (in '000s)	1,625,946	1,625,946
BASIC AND DILUTED EARNINGS PER SHARE (USD)	**0.07**	0.06

31 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Oman in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. The Capital Management Policy was revised during the year to incorporate the regulatory changes.

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

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

31 CAPITAL ADEQUACY (continued)

2022	2023		2023	2022
USD'000	USD'000		RO'000	RO'000
		CAPITAL BASE		
1,161,288	1,239,190	Common equity Tier 1 - shareholders' funds	477,088	447,096
434,112	434,112	Additional Tier 1 - capital	167,133	167,133
57,969	58,543	Tier 2 - subordinated debt and eligible impairment provisions	22,539	22,318
1,653,369	1,731,845	**TOTAL CAPITAL BASE**	666,760	636,547
		RISK WEIGHTED ASSETS		
8,801,722	9,349,114	Credit risk	3,599,409	3,388,663
614,532	661,452	Operational risk	254,659	236,595
345,519	227,416	Market risk	87,555	133,025
9,761,773	10,237,982	**TOTAL RISK WEIGHTED ASSETS**	3,941,623	3,758,283
11.9%	12.1%	**COMMON EQUITY TIER 1 RATIO**	12.1%	11.9%
16.3%	16.3%	**TIER 1 RATIO**	16.3%	16.3%
16.9%	16.9%	**RISK ASSET RATIO (BASEL II NORMS)**	16.9%	16.9%

32 RISK MANAGEMENT

Effective risk management is of primary importance for the Bank. The Bank's risk management process evaluates, monitors and manages the risks associated with the businesses the Bank conducts in line with the defined risk appetite. The Bank's key risks are credit risk, market risk, operational risk and strategic risk. The Bank operates on the guiding principles of three lines of defence i.e. Business, Independent control functions and internal audit. The risk management function is headed by the CRO with a team of risk professionals to manage specific risk functions.

32.1 CREDIT RISK

Credit risk is the risk of potential loss in the event that the Bank's customers, clients or counterparties fail to honour their financial and contractual obligations to the Bank. Credit risk is one of the most significant risks for the Bank. The Bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman.

Credit risk management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman; the risk framework is provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on the delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments. The Bank also undertakes stress testing of its portfolio and potential credit costs in the event of a downgrade or default by its customers.

Corporate credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking, Financial Institutions as well as Small and Medium enterprise exposures. The credit risk associated with any corporate financing is assessed based on an analysis of the customer and the industry it operates in. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit assessments. The Division reviews and assesses credit risk for proposed exposures prior to facilities

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The Bank follows a risk adjusted return of capital model for benchmarking risk pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The Bank has implemented a customised Moody's Risk Analyst model for risk rating corporate borrowers. The Bank maintains an accurate and consistent corporate credit rating for all its customers.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, early warning accounts, lower rated customers, public companies and large exposures. Further, the Bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines. The Bank also undertook a weekly review across all its business segments of early warning accounts, which showed signs of stress, and remedial action prescribed as necessary.

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include: -

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures

The Bank introduced prudent control measures for its UAE operations in line with the changing operating environment detailed below:

- Revised business focus on Oman-UAE business corridor with emphasis on businesses sponsored by Omani or reputed UAE nationals.
- Enhanced Due diligence and strengthened KYC processes
- Revised Standard Operating Procedures in line with changing business needs.

Retail credit

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by Risk Committee of the Board. The lending criteria for these programs are regularly reviewed and, if required revised, based on an on-going analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Retail Credit Risk Division and recommended to the delegated authorities.

A review of the Retail Credit Portfolio is conducted on a quarterly basis and provided to the Management Risk Committee, and to the Board Risk Committee. Monthly management reports are also prepared and submitted to the CRO and to the Business Heads. Salient areas covered in the review include:

- Portfolio quality
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the quarter.

System enhancements and continuous improvements have been made on all processes that are critical to improve quality of overall retail portfolio. The Bank has a lending strategy through the adoption of pre-defined lending criteria and continuous monitoring of the portfolio, and has implemented a Credit Application Scoring Module for its salary related loan portfolio to enhance the Retail Credit Risk framework.

Loan review mechanism

The Bank has an independent Loan Review Mechanism Division (LRM) with a mandate for constantly evaluating the quality of the loan book, and the balance between risk and reward and to bring about qualitative improvements in credit administration. The division evaluates the effectiveness of loan administration, integrity of the credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc. In addition to the above the LRM team reviews the

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

Bank's effectiveness of approved internal controls and procedures to ensure robust and sound practices are being followed by all stake holders. LRM also performs independent ad hoc reviews, investigations and assessments as directed by management on areas of concern relating to the credit approval process and/or the analysis processes within the Bank. Significant findings are reported to the CRO, the MRC and potentially to the BRC where warranted.

Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

Maximum exposure to credit risk

Gross maximum exposure 2022	**Gross maximum exposure 2023**		**Gross maximum exposure 2023**	Gross maximum exposure 2022
USD'000	**USD'000**		**RO'000**	RO'000
579,823	**960,018**	Balances with Central Banks	**369,607**	223,232
309,818	**842,242**	Due from Banks and other money market placements	**324,263**	119,280
9,123,102	**9,489,893**	Loans, advances and financing activities for customers	**3,653,609**	3,512,394
927,447	**1,029,155**	Financial investments	**396,225**	357,067
200,540	**181,501**	Other assets	**69,878**	77,208
54,148	**36,395**	Derivatives	**14,012**	20,847
11,194,878	**12,539,204**	**TOTAL ON BALANCE SHEET EXPOSURE**	**4,827,594**	4,310,028
728,052	**714,881**	Guarantees	**275,229**	280,300
113,460	**101,901**	Documentary letters of credit	**39,232**	43,682
520,543	**280,857**	Undrawn commitment	**108,130**	200,409
1,362,055	**1,097,639**	**TOTAL OFF-BALANCE SHEET EXPOSURE**	**422,591**	524,391

The above table represents the maximum credit risk exposure to the Bank at 31 December 2023 and 2022 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

An ageing analysis of the Bank's loans which are past due but not impaired is set out below:

	Loans in arrears 1-30 days	Loans in arrears 31-60 days	Loans in arrears 61-89 days	Total
	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers at				
31 December 2023	**44,167**	**20,638**	**14,926**	**79,731**
31 December 2023 – USD'000s	**114,719**	**53,605**	**38,769**	**207,093**
31 December 2022	80,930	24,356	16,185	121,471
31 December 2022 – USD'000s	210,208	63,262	42,039	315,509

Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is the common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Charges over business assets such as property, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties
- Pledge of marketable shares and securities

The housing loans are secured by mortgage over the residential property.

The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

An analysis of the collateral held and other credit enhancement held against loan and advances granted is as follows:

	Performing loans	Non-performing loans	Total loans
	RO'000	RO'000	RO'000
Property	**1,181,562**	**75,129**	**1,256,691**
Equities	**296,773**	**123**	**296,896**
Others	**963,094**	**8,496**	**971,590**
Balance As at 31 December 2023	**2,441,429**	**83,748**	**2,525,177**
Balance As at 31 December 2023 – USD'000s	**6,341,374**	**217,527**	**6,558,901**

	Performing loans	Non-performing loans	Total loans
	RO'000	RO'000	RO'000
Property	1,315,960	78,914	1,394,874
Equities	298,533	8,393	149,082
Others	855,229	20,481	875,710
Balance As at 31 December 2022	2,469,722	107,788	2,577,510
Balance As at 31 December 2022 – USD'000s	6,414,863	279,969	6,694,832

The amount of total secured loans and advances is less than the total value of collateral as stated above at their fair value.

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2023:

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Gross loans, advances and Islamic financing assets to customers - corporate Banking				
Performing loans (Grades 1-5)	**1,299,143**	**435,282**	**-**	**1,734,425**
Performing loans (Grades 6)	**15,816**	**104,885**	**-**	**120,701**
Performing loans (Grades 7)	**-**	**167,302**	**-**	**167,302**
Non-performing loans (Grades 8-10)	**-**	**-**	**126,478**	**126,478**
Gross loans, advances and Islamic financing assets to customers - corporate Banking	**1,314,959**	**707,469**	**126,478**	**2,148,906**
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans	**1,420,385**	**47,312**	**-**	**1,467,697**
Non-performing loans	**-**	**-**	**37,006**	**37,006**
Gross loans, advances and Islamic financing assets to customers - retail Banking	**1,420,385**	**47,312**	**37,006**	**1,504,703**
Total gross loans, advances and Islamic financing assets to customers	**2,735,344**	**754,781**	**163,484**	**3,653,609**
Loss allowance - loans, advances and Islamic financing assets to customers	**5,718**	**51,782**	**100,183**	**157,683**

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Credit related contingent items and commitment				
Performing loans (Grades 1-5)	263,075	109,716	-	372,791
Performing loans (Grades 6)	1,840	23,505	-	25,345
Performing loans (Grades 7)	-	19,343	-	19,343
Non-performing loans (Grades 8-10)	-	-	5,112	5,112
Total gross credit related contingent items and commitment	264,915	152,564	5,112	422,591
Loss allowance - contingent liabilities and commitment	364	2,845	1,278	4,487
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	260,441	-	-	260,441
Performing Banks (B1 to Ba2)	55,258	-	-	55,258
Performing Banks (Unrated)	8,564	-	-	8,564
Due from Banks and money market placements	324,263	-	-	324,263
Loss allowance - due from Banks and money market placements	50	-	-	50
Financial investment	391,788	-	-	391,788
Loss allowance – financial investment	526	-	-	526

	Stage 1	Stage 2	Stage 3	Total
	USD'000	USD'000	USD'000	USD'000
Gross loans, advances and Islamic financing assets to customers - corporate Banking				
Performing loans (Grades 1-5)	3,374,397	1,130,602	-	4,504,999
Performing loans (Grades 6)	41,081	272,428	-	313,509
Performing loans (Grades 7)	-	434,550	-	434,550
Non-performing loans (Grades 8-10)	-	-	328,515	328,515
Gross loans, advances and Islamic financing assets to customers - corporate Banking	3,415,478	1,837,580	328,515	5,581,573
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans	3,689,311	122,889	-	3,812,200
Non-performing loans	-	-	96,120	96,120
Gross loans, advances and Islamic financing assets to customers - retail Banking	3,689,311	122,889	96,120	3,908,320
Total gross loans, advances and Islamic financing assets to customers	7,104,789	1,960,469	424,635	9,489,893
Loss allowance - loans, advances and Islamic financing assets to customers	14,853	134,497	260,216	409,566
Credit related contingent items and commitment				
Performing loans (Grades 1-5)	683,312	284,977	-	968,289
Performing loans (Grades 6)	4,779	61,052	-	65,831
Performing loans (Grades 7)	-	50,241	-	50,241
Non-performing loans (Grades 8-10)	-	-	13,278	13,278
Total gross credit related contingent items and commitment	688,091	396,270	13,278	1,097,639
Loss allowance - contingent liabilities and commitment	941	7,395	3,319	11,655

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

	Stage 1	Stage 2	Stage 3	Total
	USD'000	USD'000	USD'000	USD'000
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	676,471	-	-	676,471
Performing Banks (B1 to Ba2)	143,527	-	-	143,527
Performing Banks (Unrated)	22,244	-	-	22,244
Due from Banks and money market placements	842,242	-	-	842,242
Loss allowance - due from Banks and money market placements	130	-	-	130
Financial investment	1,017,631	-	-	1,017,631
Loss allowance – financial investment	1,366	-	-	1,366

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2022:

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Gross loans, advances and Islamic financing assets to customers - corporate Banking				
Performing loans (Grades 1-5)	1,441,285	139,837	-	1,581,122
Performing loans (Grades 6)	16,378	158,037	-	174,415
Performing loans (Grades 7)	-	186,236	-	186,236
Non-performing loans (Grades 8-10)	-	-	136,430	136,430
Gross loans, advances and Islamic financing assets to customers - corporate Banking	1,457,663	484,110	136,430	2,078,203
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans	1,343,478	54,031	-	1,397,509
Non-performing loans	-	-	36,682	36,682
Gross loans, advances and Islamic financing assets to customers - retail Banking	1,343,478	54,031	36,682	1,434,191
Total gross loans, advances and Islamic financing assets to customers	2,801,141	538,141	173,112	3,512,394
Loss allowance - loans, advances and Islamic financing assets to customers	5,485	43,487	107,566	156,538

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Credit related contingent items and commitment				
Performing loans (Grades 1-5)	402,354	57,466	-	459,820
Performing loans (Grades 6)	13,635	12,911	-	26,546
Performing loans (Grades 7)	-	31,799	-	31,799
Non-performing loans (Grades 8-10)	-	-	6,226	6,226
Total gross credit related contingent items and commitment	415,989	102,176	6,226	524,391
Loss allowance - contingent liabilities and commitment	577	1,900	2,157	4,634
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	69,777	-	-	69,777
Performing Banks (B1 to Ba2)	18,122	-	-	18,122
Performing Banks (Unrated)	31,381	-	-	31,381
Due from Banks and money market placements	119,280	-	-	119,280
Loss allowance - due from Banks and money market placements	20	-	-	20
Financial investment	347,001	5,775	-	352,776
Loss allowance – financial investment	312	122	-	434

	Stage 1	Stage 2	Stage 3	Total
	USD'000	USD'000	USD'000	USD'000
Gross loans, advances and Islamic financing assets to customers - corporate Banking				
Performing loans (Grades 1-5)	3,743,597	363,213	-	4,106,810
Performing loans (Grades 6)	42,540	410,486	-	453,026
Performing loans (Grades 7)	-	483,730	-	483,730
Non-performing loans (Grades 8-10)	-	-	354,364	354,364
Gross loans, advances and Islamic financing assets to customers - corporate Banking	3,786,137	1,257,429	354,364	5,397,930
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans	3,489,553	140,340	-	3,629,893
Non-performing loans	-	-	95,278	95,278
Gross loans, advances and Islamic financing assets to customers - retail Banking	3,489,553	140,340	95,278	3,725,171
Total gross loans, advances and Islamic financing assets to customers	7,275,690	1,397,769	449,642	9,123,101
Loss allowance - loans, advances and Islamic financing assets to customers	14,248	112,951	279,393	406,592
Credit related contingent items and commitment				
Performing loans (Grades 1-5)	1,045,076	149,262	-	1,194,338
Performing loans (Grades 6)	35,416	33,535	-	68,951
Performing loans (Grades 7)	-	82,595	-	82,595
Non-performing loans (Grades 8-10)	-	-	16,171	16,171
Total gross credit related contingent items and commitment	1,080,492	265,392	16,171	1,362,055
Loss allowance - contingent liabilities and commitment	1,497	4,937	5,603	12,037

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

	Stage 1	Stage 2	Stage 3	Total
	USD'000	USD'000	USD'000	USD'000
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	181,239	-	-	181,239
Performing Banks (B1 to Ba2)	47,070	-	-	47,070
Performing Banks (Unrated)	81,509	-	-	81,509
Due from Banks and money market placements	309,818	-	-	309,818
Loss allowance - due from Banks and money market placements	52	-	-	52
Financial investment	901,301	15,000	-	916,301
Loss allowance – financial investment	810	317	-	1,127

Impairment assessment

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default.
- The borrower requesting emergency funding from the Bank.
- The borrower having past due liabilities to public creditors or employees.
- The borrower is deceased.
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral.
- A material decrease in the borrower's turnover or the loss of a major customer.
- A covenant breach not waived by the Bank.
- The debtor (or any legal entity within the debtor's group) filing for Bankruptcy application/protection.
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Bank formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Given the nature of the Bank's exposures and availability of historical statistically reliable information, the Bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)
Impairment assessment (continued)

Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman).
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 66 USD/barrel for Brent oil (2022: 66 USD/barrel for Brent oil).
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:
   a. historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
   b. size of the detachment equal to plus/minus 0.87 standard deviation from the base scenario as an approximate representation of 33.33% probability of alternative (adverse and favourable) scenarios,
   c. the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).
4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

Key drivers	ECL scenario and assigned weightage	31 December 2023		31 December 2022	
		2024	**2025**	2023	2024
Real Interest Rate	Base scenario	**7.1%**	**7.1%**	7.1%	7.1%
	Upside scenario	**5.9%**	**6.3%**	5.4%	5.9%
	Downside scenario	**8.9%**	**8.4%**	9.5%	8.9%
GDP	Base scenario	**2.9%**	**4.0%**	4.2%	2.9%
	Upside scenario	**4.3%**	**4.2%**	8.7%	4.2%
	Downside scenario	**2.9%**	**3.7%**	4.2%	2.9%
GDP per capita	Base scenario	**-1.0%**	**0.05%**	0.2%	-1.0%
	Upside scenario	**0.3%**	**0.2%**	4.6%	0.3%
	Downside scenario	**-1.0%**	**-0.2%**	0.2%	-1.0%

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)
Impairment assessment (continued)

Credit risk Grade

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, Banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data and assigns the internal rating.

Corporate and commercial lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

Sensitivity analysis

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

- Interest rate, given its impact on companies' likelihood of default; and
- GDP, given the significant impact on companies' performance and collateral valuations;
- Unemployment rate, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Loss given default

For corporate and investment Banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank.

The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant Increase in Credit Risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. The Bank applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.
c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
d. Frequent changes in key senior management personnel without acceptable successors or professional management.

Notes to the Financial Statements as at 31 December 2023

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

e. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
f. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

Management overlays may be applied to the model outputs if consistent with the objective of identifying a significant increase in credit risk.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently. When the contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3.5.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

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

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

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities. For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered Stage 1.

Measurement of ECL - Judgemental adjustments:

Where appropriate, the Bank makes adjustments to the ECL estimate outside the Bank's regular modelling process to reflect management judgements. The changes to the assumptions underlying these judgmental adjustments could materially affect ECL within the next 12 months. These adjustments include post-model adjustments (PMAs) and overlays.

PMAs are adjustments to the ECL balance as part of the year-end reporting process to reflect late updates to market data, known model deficiencies and expert credit judgement. They are usually calculated and allocated at a granular level through modelled analysis, calculated separately for each economic scenario and where appropriate used to adjust stage allocation outcomes.

Overlays are adjustments to the ECL model outputs that have been made outside the detailed ECL calculation and reporting process. These do not meet the Bank's definition of PMAs because they are not calculated at a granular level through modelled analysis.

The Bank has internal governance frameworks and controls in place to assess the appropriateness of all judgmental adjustments. The aim of the Bank is to incorporate these adjustments into the ECL models, where possible, as part of the periodic recalibration and model assessment procedures.

Total judgmental adjustments as at 31 December 2023 increased the overall loss allowance by 0.65% compared to ECL allowance derived through the ECL models.

Model risk management:

The Bank has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Bank undertook a gap assessment on the following:

Data Management Framework which consists of Data identification and appropriateness, Data Governance, Data Infrastructure and systems, Model development scope includes, data preparation and transformations, sampling and methodology appropriateness, Development phase testing, Model validation, Model governance and Controls which covers Model objective and strategy, Model Lifecycle, Model Inventory and management, decision process, Model documentation, Model usage, Model performance and monitoring.

Model Validation which includes validation plan and procedures, metric directory and limits, responsibility and review frequency, Implementation and Calibration covering Project Governance, system infrastructure, user acceptance testing , production testing , overrides, calibration suitability , rectification plans and efficiency.

Detailed itemised remedial plan for each of the models used by NBO.

This enabled the bank to establish a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It set out an effective governance structure with clearly defined roles and responsibilities, policies and controls for managing model risk. To this end, the bank is setting up a Model oversight committee represented by senior management, responsible for all significant modelling decisions related to each step pf the model life cycle as a part of the model

governance framework. The Framework would be reviewed on a regular basis to ensure it meets regulatory standards and international practices.

The Bank has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defence for the Bank in terms of usage of models.

32.2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition, the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on the Central Bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly through analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the Bank also periodically conducts stress tests on liquidity based on market and Bank specific events in line with Basel Committee recommendations. The liquidity position of the Bank and stress test scenarios are regularly reviewed by the management and also discussed at the Board Risk Committee.

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 (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 2020, with a minimum ratio of 100% as per the regulatory guidance.

32 RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

The residual maturity behavioural of the assets, liabilities and equity at 31 December 2023 is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	281,522	51,355	332,877	44,914	26,678	71,592	404,469
Due from Banks and other money market placements (net)	290,410	26,950	317,360	6,853	-	6,853	324,213
Loans, advances and Islamic financing assets (net)	386,955	164,117	551,072	1,000,587	1,944,267	2,944,854	3,495,926
Financial investments (net)	144,776	7,885	152,661	230,770	74,184	304,954	457,615
Property and equipment	-	-	-	-	55,893	55,893	55,893
Other assets	77,095	6,538	83,633	257	-	257	83,890
TOTAL ASSETS	**1,180,758**	**256,845**	**1,437,603**	**1,283,381**	**2,101,022**	**3,384,403**	**4,822,006**
Due to Banks and other money market deposits	56,906	111,650	168,556	244,475	-	244,475	413,031
Customers' deposits and unrestricted investment accounts	873,649	1,010,404	1,884,053	1,133,251	555,729	1,688,980	3,573,033
Other liabilities	114,497	6,734	121,231	21,158	34	21,192	142,423
Taxation	18,976	-	18,976	-	-	-	18,976
Shareholders' equity	-	-	-	-	507,410	507,410	507,410
Tier 1 perpetual bonds	-	-	-	-	167,133	167,133	167,133
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,064,028**	**1,128,788**	**2,192,816**	**1,398,884**	**1,230,306**	**2,629,190**	**4,822,006**
TOTAL LIQUIDITY GAP	**116,730**	**(871,943)**	**(755,213)**	**(115,503)**	**870,716**	**755,213**	**-**
CUMULATIVE LIQUIDITY GAP	**116,730**	**(755,213)**	**(1,510,426)**	**(1,625,929)**	**(755,213)**	**-**	**-**

32 RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	731,225	133,390	864,615	116,660	69,294	185,954	1,050,569
Due from Banks and other money market placements (net)	754,312	70,000	824,312	17,800	-	17,800	842,112
Loans, advances and Islamic financing assets (net)	1,005,078	426,278	1,431,356	2,598,927	5,050,044	7,648,971	9,080,327
Financial investments (net)	376,040	20,481	396,521	599,403	192,686	792,089	1,188,610
Property and equipment	-	-	-	-	145,177	145,177	145,177
Other assets	200,246	16,982	217,228	668	-	668	217,896
TOTAL ASSETS	**3,066,901**	**667,131**	**3,734,032**	**3,333,458**	**5,457,201**	**8,790,659**	**12,524,691**
Due to Banks and other money market deposits	147,808	290,000	437,808	635,000	-	635,000	1,072,808
Customers' deposits and unrestricted investment accounts	2,269,218	2,624,426	4,893,644	2,943,509	1,443,452	4,386,961	9,280,605
Other liabilities	297,395	17,491	314,886	54,956	88	55,044	369,930
Taxation	49,288	-	49,288	-	-	-	49,288
Shareholders' equity	-	-	-	-	1,317,948	1,317,948	1,317,948
Tier 1 perpetual bonds	-	-	-	-	434,112	434,112	434,112
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,763,709**	**2,931,917**	**5,695,626**	**3,633,465**	**3,195,600**	**6,829,065**	**12,524,691**
TOTAL LIQUIDITY GAP	**303,192**	**(2,264,786)**	**(1,961,594)**	**(300,007)**	**2,261,601**	**1,961,594**	**-**
CUMULATIVE LIQUIDITY GAP	**303,192**	**(1,961,594)**	**(3,923,188)**	**(4,223,195)**	**(1,961,594)**	**-**	**-**

32 RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

The current and savings 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".

	On demand within 3 months	**3 to 12 months**	**Subtotal less than 12 months**	**1 to 5 years**	**Over 5 years**	**Subtotal over 12 months**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Customers' deposits and unrestricted investment accounts	2,116,326	536,571	2,652,897	920,007	129	920,136	3,573,033

	On demand within 3 months	**3 to 12 months**	**Subtotal less than 12 months**	**1 to 5 years**	**Over 5 years**	**Subtotal over 12 months**	**Total**
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Customers' deposits and unrestricted investment accounts	5,496,950	1,393,691	6,890,641	2,389,629	335	2,389,964	9,280,605

The maturity profile of the assets, liabilities and equity at 31 December 2022 is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	156,433	55,082	211,515	26,037	24,037	50,074	261,589
Due from Banks and other money market placements (net)	104,221	2,525	106,746	12,514	-	12,514	119,260
Loans, advances and Islamic financing assets (net)	360,031	214,063	574,094	931,796	1,847,809	2,779,605	3,353,699
Financial investments (net)	121,018	35,677	156,695	120,542	127,150	247,692	404,387
Property and equipment	-	-	-	-	57,090	57,090	57,090
Other assets	89,309	8,677	97,986	69	-	69	98,055
TOTAL ASSETS	831,012	316,024	1,147,036	1,090,958	2,056,086	3,147,044	4,294,080
Due to Banks and other money market deposits	107,743	11,550	119,293	142,450	-	142,450	261,743
Customers' deposits and unrestricted investment accounts	688,736	1,063,798	1,752,534	773,009	521,879	1,294,888	3,047,422
Euro medium term notes	-	188,865	188,865	-	-	-	188,865
Other liabilities	131,042	7,308	138,350	425	460	885	139,235
Taxation	15,981	-	15,981	-	-	-	15,981
Shareholders' equity	-	-	-	-	473,701	473,701	473,701
Tier 1 perpetual bonds	-	-	-	-	167,133	167,133	167,133
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	943,502	1,271,521	2,215,023	915,884	1,163,173	2,079,057	4,294,080
TOTAL LIQUIDITY GAP	(112,490)	(955,497)	(1,067,987)	175,074	892,913	1,067,987	-
CUMULATIVE LIQUIDITY GAP	(112,490)	(1,067,987)	(2,135,974)	(1,960,900)	(1,067,987)	-	-

Notes to the Financial Statements as at 31 December 2023

32 RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	406,319	143,070	549,389	67,629	62,434	130,063	679,452
Due from Banks and other money market placements (net)	270,704	6,558	277,262	32,504	-	32,504	309,766
Loans, advances and Islamic financing assets (net)	935,146	556,008	1,491,154	2,420,249	4,799,504	7,219,753	8,710,907
Financial investments (net)	314,332	92,668	407,000	313,096	330,260	643,356	1,050,356
Property and equipment	-	-	-	-	148,286	148,286	148,286
Other assets	231,971	22,538	254,509	179	-	179	254,688
TOTAL ASSETS	2,158,472	820,842	2,979,314	2,833,657	5,340,484	8,174,141	11,153,455
Due to Banks and other money market de-posits	279,852	30,000	309,852	370,000	-	370,000	679,852
Customers' deposits and unrestricted investment accounts	1,788,924	2,763,112	4,552,036	2,007,816	1,355,530	3,363,346	7,915,382
Euro medium term notes	-	490,558	490,558	-	-	-	490,558
Other liabilities	340,368	18,982	359,350	1,104	1,195	2,299	361,649
Taxation	41,509	-	41,509	-	-	-	41,509
Shareholders' equity	-	-	-	-	1,230,393	1,230,393	1,230,393
Tier 1 perpetual bonds	-	-	-	-	434,112	434,112	434,112
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,450,653	3,302,652	5,753,305	2,378,920	3,021,230	5,400,150	11,153,455
TOTAL LIQUIDITY GAP	(292,181)	(2,481,810)	(2,773,991)	454,737	2,319,254	2,773,991	-
CUMULATIVE LIQUIDITY GAP	(292,181)	(2,773,991)	(5,547,982)	(5,093,245)	(2,773,991)	-	-

Notes to the Financial Statements as at 31 December 2023

32 RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

Liquidity coverage ratio

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on 1 January, 2020.

The following table set out the Liquidity Coverage ratio (LCR) and net stable funding ratio (NSFR) of the Bank.

As at 31 December	2023	2022
LCR	**384.42%**	232.22%
NSFR	**115.17%**	101.90%

32.3 MARKET RISK

The Bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the Bank will fluctuate due to changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests are also conducted periodically incorporating adverse movements in equity value, foreign exchange, etc. and reviewed by the Management and Board Risk Committee.

The Bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The Bank has adopted risk weightings in line with best practices to capture the credit risk related to these off-balance sheet exposures.

• Equity risk

The proprietary equity positions are held in the 'FVOCI' category. The market risk is monitored though daily mark-to-market reports which are circulated to the management and, if any, required actions are promptly taken. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

• Interest rate risk

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are Maturity Gap Analysis (which measures the interest rate sensitivity of earnings) and Duration (which measures the interest rate sensitivity of capital). These are in line with the BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standardized interest rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in interest rate is provided below:

As at December 2023	200 bps increase	200 bps decrease
Earnings impact - RO'000s	**7,124**	**(7,124)**

32 RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Interest rate risk (continued)

As at December 2023	200 bps increase	200 bps decrease
Earnings impact - USD'000s	**18,504**	**(18,504)**

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

The Bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analyses are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings and presented to the Board Risk Committee.

• IBOR Reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform').

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a IBOR Committee to manage the transition for any of its contracts that could be affected. The IBOR Committee is being led by senior representatives from functions across the Bank including the client facing teams, Legal, Finance, Operations, Risk Management and Technology.

The objectives of the IBOR Committee include evaluating the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The IBOR Committee reports to the Executive Committee quarterly and collaborates with other business functions as needed. It provides periodic reports to ALCO and Central Treasury to support the management of interest rate risk and works closely with the Bank Operational Risk Committee to identify operational and regulatory risks arising from IBOR reform.

For contracts indexed to an IBOR that mature after the expected cessation of the IBOR rate, the IBOR Committee has established policies to amend the contractual terms. These amendments include the addition of fall back clauses or replacement of the IBOR rate with an alternative benchmark rate. The Bank has signed up to fall back mechanisms for centrally cleared derivatives and aimed to transfer exposures to the new benchmark rate ahead of the activation date of the fall back provisions.

The Bank has been applying a policy to require that retail products, such as its residential mortgage portfolio, are amended in a uniform way, and bespoke products, such as loans and advances to corporates, are amended in bilateral negotiations with the counterparties.

Based on regulatory guidelines all newly originated floating-rate loans and advances to customers on or after 01 January 2022, incorporate fall back provisions for when an IBOR ceases to exist. The fall back provisions provide for a transition to the applicable alternative benchmark rate, which vary depending on the jurisdiction.

The Bank monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fall back clause. The Bank considers that a contract is not yet transitioned to an alternative benchmark rate (and referred to as an 'unreformed contract') when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fall back clause that deals with the cessation of the existing IBOR.

IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform.

32 RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Interest rate risk (continued)

- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses.
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable.
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.
- Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

The table below sets out the IBOR rates that the Bank had exposure to, the new benchmark rates to which these exposures have or are being transitioned, and the status of the transition.

Currency	Benchmark before reform	Benchmark after reform	Status as on 31 December 2023
USD	USD LIBOR	SOFR	Completed

There have not been any significant changes in Interest Rate Risk management process in the Bank during the year.

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2023 is as follows:

	Average effective interest rate	On de-mand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	Total	-	-	-	-	404,469	404,469
Due from Banks and other money market placements (net)	5.80%	179,443	19,250	6,853	-	118,667	324,213
Loans, advances and Islamic financing assets (net)	5.96%	1,245,155	924,258	676,358	642,500	7,655	3,495,926
Financial investments (net)	5.66%	144,773	7,885	230,769	68,748	5,440	457,615
Property and equipment	N/A	-	-	-	-	55,893	55,893
Other assets	N/A	-	-	-	-	83,890	83,890
TOTAL ASSETS		1,569,371	951,393	913,980	711,248	676,014	4,822,006
Due to Banks and other money market deposits	6.40%	382,610	7,700	-	-	22,721	413,031
Customers' deposits and unrestricted investment accounts	2.95%	354,059	1,725,907	920,007	129	572,931	3,573,033
Other liabilities	N/A	21,849	-	-	-	120,574	142,423
Taxation	N/A	-	-	-	-	18,976	18,976
Tier 1 Perpetual Bond	7.61%	-	-	167,133	-	-	167,133
Shareholders' equity	N/A	-	-	-	-	507,410	507,410
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		758,518	1,733,607	1,087,140	129	1,242,612	4,822,006
TOTAL INTEREST RATE SENSITIVITY GAP		810,853	(782,214)	(173,160)	711,119	(566,598)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP		810,853	28,639	(144,521)	566,598	-	-

32 RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2023 is as follows:

	Average effective interest rate	On de-mand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	N/A	-	-	-	-	1,050,569	1,050,569
Due from Banks and other money market placements (net)	5.80%	466,086	50,000	17,800	-	308,226	842,112
Loans, advances and Islamic financing assets (net)	5.96%	3,234,169	2,400,670	1,756,774	1,668,831	19,883	9,080,327
Financial investments (net)	5.66%	376,034	20,481	599,400	178,565	14,130	1,188,610
Property and equipment	N/A	-	-	-	-	145,177	145,177
Other assets	N/A	-	-	-	-	217,896	217,896
TOTAL ASSETS		4,076,289	2,471,151	2,373,974	1,847,396	1,755,881	12,524,691
Due to Banks and other money market deposits	6.40%	993,792	20,000	-	-	59,016	1,072,808
Customers' deposits and unrestricted investment accounts	2.95%	919,634	4,482,875	2,389,629	335	1,488,132	9,280,605
Other liabilities	N/A	56,751	-	-	-	313,179	369,930
Taxation	N/A	-	-	-	-	49,288	49,288
Tier 1 Perpetual Bond	7.61%	-	-	434,112	-	-	434,112
Shareholders' equity	N/A	-	-	-	-	1,317,948	1,317,948
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,970,177	4,502,875	2,823,741	335	3,227,563	12,524,691
TOTAL INTEREST RATE SENSITIVITY GAP		2,106,112	(2,031,724)	(449,767)	1,847,061	(1,471,682)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP		2,106,112	74,388	(375,379)	1,471,682	-	-

32 RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2022 is as follows:

	Average effective interest rate	On de-mand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	N/A	-	-	-	-	261,589	261,589
Due from Banks and other money market placements (net)	1.78%	72,682	2,525	12,514	-	31,539	119,260
Loans, advances and Islamic financing assets (net)	5.41%	1,397,478	736,891	661,445	546,591	11,294	3,353,699
Financial investments (net)	4.28%	75,000	10,422	17,715	27,232	274,018	404,387
Property and equipment	N/A	-	-	-	-	57,090	57,090
Other assets	N/A	-	-	-	-	98,055	98,055
TOTAL ASSETS		1,545,160	749,838	691,674	573,823	733,585	4,294,080
Due to Banks and other money market deposits	3.30%	252,732	-	-	-	9,011	261,743
Customers' deposits and unrestricted investment accounts	2.16%	175,170	1,825,303	496,391	64	550,494	3,047,422
Euro medium term notes	6.20%	-	188,865	-	-	-	188,865
Other liabilities	N/A	3,614	-	-	-	135,621	139,235
Taxation	N/A	-	-	-	-	15,981	15,981
Tier 1 Perpetual Bond	7.61%	-	-	167,133	-	-	167,133
Shareholders' equity	N/A	-	-	-	-	473,701	473,701
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		431,516	2,014,168	663,524	64	1,184,808	4,294,080
TOTAL INTEREST RATE SENSITIVITY GAP		1,113,644	(1,264,330)	28,150	573,759	(451,223)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP		1,113,644	(150,686)	(122,536)	451,223	-	

32 RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2022 is as follows:

	Average effective interest rate	On de-mand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	N/A	-	-	-	-	679,452	679,452
Due from Banks and other money market placements (net)	1.78%	188,784	6,558	32,504	-	81,920	309,766
Loans, advances and Islamic financing assets (net)	5.41%	3,629,813	1,914,003	1,718,039	1,419,717	29,335	8,710,907
Financial investments (net)	4.28%	194,805	27,070	46,013	70,732	711,736	1,050,356
Property and equipment	N/A	-	-	-	-	148,286	148,286
Other assets	N/A	-	-	-	-	254,688	254,688
TOTAL ASSETS		4,013,402	1,947,631	1,796,556	1,490,449	1,905,417	11,153,455
Due to Banks and other money market deposits	3.30%	656,447	-	-	-	23,405	679,852
Customers' deposits and unrestricted investment accounts	2.16%	454,987	4,741,047	1,289,327	166	1,429,855	7,915,382
Euro medium term notes	6.20%	-	490,558	-	-	-	490,558
Other liabilities	N/A	9,387	-	-	-	352,262	361,649
Taxation	N/A	-	-	-	-	41,509	41,509
Tier 1 Perpetual Bond	7.61%	-	-	434,112	-	-	434,112
Shareholders' equity	N/A	-	-	-	-	1,230,393	1,230,393
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,120,821	5,231,605	1,723,439	166	3,077,424	11,153,455
TOTAL INTEREST RATE SENSITIVITY GAP		2,892,581	(3,283,974)	73,117	1,490,283	(1,172,007)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP		2,892,581	(391,393)	(318,276)	1,172,007	-	

- **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The foreign exchange positions in the books of the Bank are generally small residual positions resulting from market coverings for customer transactions.

Foreign exchange VAR is computed monthly for all non-pegged currencies at 99% confidence level and a holding period of 10 days. Additionally, earnings impact of a 15% adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

32 RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Interest rate risk (continued)

The Bank had the following significant net exposures denominated in foreign currencies:

2022	2023		2023	2022
USD'000	**USD'000**		**RO'000**	RO'000
240,145	**100,330**	US Dollar	**38,627**	92,456
108,727	**110,442**	UAE Dirham	**42,520**	41,860
30,447	**4,229**	Others	**1,628**	11,722

32.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, frauds or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set-off thresholds are reported to the Board Risk Committee. In addition to this, the Bank has an operational loss reporting database.

Information Security is an essential component of Operational Risk Management. The Bank has implemented the latest security infrastructure like firewalls, intrusion prevention systems, anti-virus soft wares, etc. Periodic vulnerability assessments are conducted to ensure the security of the systems.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical Banking processes are tested to ascertain availability during such situations.

32.4.1 Fraud Risk

The Bank has adopted a 'zero tolerance' policy towards fraud and corruption and as such will seek to take disciplinary and/or legal action against those who perpetrate, are involved in, or assist with fraudulent or improper activities. The Fraud risk management (FRM) unit manages the fraud risk for the Bank at an enterprise level. The unit monitors transactions originating from Cards, POS and other Digital channels. Besides, the unit conducts Fraud Risk Assessments to assess fraud risks on a pro-active basis, verifies the existing controls and proposes new controls, if required.

The unit is also responsible for managing Incidents across the Bank and maintenance of Operational Loss Database.

32.5 STRATEGIC RISKS

The Bank monitors strategic risks through regular quarterly assessment and reporting at the Board Risk Committee level. This includes reviews of human resource, economic (both at the macro and micro levels), regulatory/compliance, information technology and information security, legal and reputational related risks and the monitoring of strategic project risk arising from initiatives undertaken by the Bank. Furthermore, the Bank has augmented its Internal Capital Adequacy Assessment Process (ICAAP) to align the business strategy and the capital management processes. The Bank had engaged an internationally renowned consultant to review the current ICAAP process and to recommend enhancements that will, once implemented, escalate the ICAAP process and documentation to international best practices. This initiative was proposed and sponsored at the highest level by the Board Risk Committee and its recommendations are being progressively completed.

32 RISK MANAGEMENT (continued)

32.6 CLIMATE RELATED RISKS

Climate change has emerged as one of the most significant global challenges of the time, impacting economies, societies, and ecosystems across the planet. As the effects of climate change become increasingly apparent, businesses and institutions must recognize the urgent need to address climate risks. Among these institutions, banks play a crucial role in shaping the global financial landscape and have a unique responsibility to manage climate-related financial risks within their operations.

In recent years, the financial sector has witnessed a growing recognition of the systemic risks associated with climate change. From physical risks, such as extreme weather events and rising sea levels, to transitional risks, such as policy changes and technological disruptions, climate-related factors have the potential to profoundly impact the stability of the banking industry. In this light, the bank has developed a comprehensive climate risk policy duly approved by the board. The policy serves as a roadmap to identify, assess, and mitigate the risks and opportunities associated with climate change. By incorporating climate considerations into operations, NBO intends to effectively manage its consequent risks, seize emerging opportunities, and contribute to the transition to a low-carbon and climate-resilient economy.

33 CONCENTRATIONS

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

33 CONCENTRATIONS (continued)

The distribution of assets, liabilities and contingent items by geographical regions as of 31 December 2023 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	344,335	59,358	776	-	404,469
Due from Banks and other money market placements (net)	50,789	41,135	537	231,752	324,213
Loans, advances and Islamic financing assets (net)	3,422,064	73,862	-	-	3,495,926
Financial investments (net)	413,136	13,535	-	30,944	457,615
Property and equipment	55,052	841	-	-	55,893
Other assets	80,210	3,431	249	-	83,890
TOTAL ASSETS	**4,365,586**	**192,162**	**1,562**	**262,696**	**4,822,006**
Due to Banks and other money market deposits	3,000	164,390	-	245,641	413,031
Customers' deposits and unrestricted investment accounts	3,464,877	107,713	443	-	3,573,033
Other liabilities	139,937	2,248	238	-	142,423
Taxation	18,673	246	57	-	18,976
Shareholders' equity	519,314	(13,812)	1,908	-	507,410
Tier 1 perpetual bond	167,133	-	-	-	167,133
LIABILITIES AND SHAREHOLDERS' EQUITY	**4,312,934**	**260,785**	**2,646**	**245,641**	**4,822,006**
CONTINGENT LIABILITIES	**258,300**	**20,610**	**-**	**35,551**	**314,461**

	Sultanate of Oman	UAE	Egypt	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	894,376	154,177	2,016	-	1,050,569
Due from Banks and other money market placements (net)	131,920	106,844	1,395	601,953	842,112
Loans, advances and Islamic financing assets (net)	8,888,478	191,849	-	-	9,080,327
Financial investments (net)	1,073,080	35,156	-	80,374	1,188,610
Property and equipment	142,993	2,184	-	-	145,177
Other assets	208,337	8,912	647	-	217,896
TOTAL ASSETS	**11,339,184**	**499,122**	**4,058**	**682,327**	**12,524,691**
Due to Banks and other money market deposits	7,792	426,987	-	638,029	1,072,808
Customers' deposits and unrestricted investment accounts	8,999,680	279,774	1,151	-	9,280,605
Other liabilities	363,473	5,839	618	-	369,930
Taxation	48,501	639	148	-	49,288
Shareholders' equity	1,348,867	(35,875)	4,956	-	1,317,948
Tier 1 perpetual bond	434,112	-	-	-	434,112
LIABILITIES AND SHAREHOLDERS' EQUITY	**11,202,425**	**677,364**	**6,873**	**638,029**	**12,524,691**
CONTINGENT LIABILITIES	**670,909**	**53,533**	**-**	**92,340**	**816,782**

33 CONCENTRATIONS ((continued)

The distribution of assets, liabilities and contingent items by geographical regions as of 31 December 2022 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	213,640	47,020	929	-	261,589
Due from Banks and other money market placements (net)	27,949	3,455	613	87,243	119,260
Loans, advances and Islamic financing assets (net)	3,278,009	66,066	-	9,624	3,353,699
Financial investments (net)	375,348	12,619	-	16,420	404,387
Property and equipment	55,974	1,116	-	-	57,090
Other assets	93,844	4,086	125	-	98,055
TOTAL ASSETS	4,044,764	134,362	1,667	113,287	4,294,080
Due to Banks and other money market deposits	11,001	108,487	3	142,252	261,743
Customers' deposits and unrestricted investment accounts	2,934,709	112,250	463	-	3,047,422
Euro medium term notes	188,865	-	-	-	188,865
Other liabilities	138,767	362	106	-	139,235
Taxation	15,570	330	81	-	15,981
Shareholders' equity	488,870	(17,190)	2,021	-	473,701
Tier 1 perpetual bond	167,133	-	-	-	167,133
LIABILITIES AND SHAREHOLDERS' EQUITY	3,944,915	204,239	2,674	142,252	4,294,080
CONTINGENT LIABILITIES	266,416	18,040	-	39,526	323,982

	Sultanate of Oman	UAE	Egypt	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	554,909	122,130	2,413	-	679,452
Due from Banks and other money market placements (net)	72,595	8,974	1,592	226,605	309,766
Loans, advances and Islamic financing assets (net)	8,514,310	171,600	-	24,997	8,710,907
Financial investments (net)	974,930	32,777	-	42,649	1,050,356
Property and equipment	145,387	2,899	-	-	148,286
Other assets	243,750	10,613	325	-	254,688
TOTAL ASSETS	10,505,881	348,993	4,330	294,251	11,153,455
Due to Banks and other money market deposits	28,574	281,784	8	369,486	679,852
Customers' deposits and unrestricted investment accounts	7,622,621	291,558	1,203	-	7,915,382
Euro medium term notes	490,558	-	-	-	490,558
Other liabilities	360,434	940	275	-	361,649
Taxation	40,442	857	210	-	41,509
Shareholders' equity	1,269,793	(44,649)	5,249	-	1,230,393
Tier 1 perpetual bond	434,112	-	-	-	434,112
LIABILITIES AND SHAREHOLDERS' EQUITY	10,246,534	530,490	6,945	369,486	11,153,455
CONTINGENT LIABILITIES	691,991	46,857	-	102,664	841,512

34. SEGMENTAL INFORMATION

For management purposes, the Bank is organised into four operating segments based on business units and are as follows:

- Retail Banking offers various products and facilities to individual retail and high net-worth customers to meet everyday banking needs. This includes asset products like personal loans, housing loan, credit cards and term loans and liability products like savings account, current account and term deposits.
- Wholesale Banking delivers a variety of products and services to Corporate, Government and Financial Institutions, that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes investment Banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- International operations include UAE and Egypt operations.
- Islamic Banking offers various products as per Shari'a principles.
- Funding Center – The Funding center is responsible for balancing and managing the liquidity of funds within the Bank. It acts as repository of funds by allocating funds transfer pricing to various business units for performance management purposes. The department also handles the Bank's investments in securities, asset/liability management and cash instruments.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the support functions are allocated to operating segments for performance measurement purposes.

Segment information by business line is as follows:

Year ended 31 December 2023	Retail Banking	Wholesale Banking	International Banking	Islamic Banking	Funding center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Net Interest income and net Income from Islamic financing and Investment activities	41,018	54,426	5,154	6,078	3,866	110,542
Fees, Commission and other operating income	13,151	20,505	739	930	-	35,325
Operating income	54,169	74,931	5,893	7,008	3,866	145,867
Operating expenditure	(36,385)	(17,080)	(3,967)	(4,088)	(389)	(61,909)
Operating profit	17,784	57,851	1,926	2,920	3,477	83,958
Loan impairment (losses)/reversal	(5,474)	(10,378)	1,844	(1,690)	-	(15,698)
Net profit before tax	12,310	47,473	3,770	1,230	3,477	68,260
Taxation	(1,552)	(5,986)	(2,255)	-	(438)	(10,231)
Net profit after tax	10,758	41,487	1,515	1,230	3,039	58,029
TOTAL ASSETS	1,437,975	2,132,613	150,729	381,823	718,866	4,822,006
TOTAL LIABILITIES AND EQUITY	919,698	2,295,453	150,729	381,823	1,074,303	4,822,006

34 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2023	Retail Banking	Wholesale Banking	International Banking	Islamic Banking	Funding center	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Net Interest income and net Income from Islamic financing and Investment activities	106,540	141,366	13,387	15,787	10,042	287,122
Fees, Commission and other operating income	34,158	53,260	1,919	2,416	-	91,753
Operating income	140,698	194,626	15,306	18,203	10,042	378,875
Operating expenditure	(94,507)	(44,364)	(10,304)	(10,618)	(1,010)	(160,803)
Operating profit	46,191	150,262	5,002	7,585	9,032	218,072
Loan impairment (losses)/reversal	(14,218)	(26,956)	4,790	(4,390)	-	(40,774)
Net profit before tax	31,973	123,306	9,792	3,195	9,032	177,298
Taxation	(4,031)	(15,548)	(5,857)	-	(1,138)	(26,574)
Net profit after tax	27,942	107,758	3,935	3,195	7,894	150,724
TOTAL ASSETS	3,735,000	5,539,255	391,504	991,748	1,867,184	12,524,691
TOTAL LIABILITIES AND EQUITY	2,388,826	5,962,216	391,504	991,748	2,790,397	12,524,691

Disaggregated revenues 2023

IFRS15 requires the disclosure of disaggregated revenue from contracts with customers for major products / service lines. The below table provides disaggregation of commission and fee income into revenues within Bank's reportable segments. Contract revenue is further segregated based on the products and services:

2023	Retail	Wholesale	International	Islamic	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Transactional	7,622	-	2	69	7,693
Trade Income	86	2,358	210	98	2,752
Account Services	117	1,124	(9)	33	1,265
Underwriting & Syndication	782	5,950	193	325	7,250
Investment banking	-	2,289	-	-	2,289
TOTAL	8,607	11,721	396	525	21,249

2023	Retail	Wholesale	International	Islamic	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Transactional	19,798	-	5	179	19,982
Trade Income	223	6,125	545	255	7,148
Account Services	304	2,919	(23)	86	3,286
Underwriting & Syndication	2,031	15,455	501	844	18,831
Investment banking	-	5,945	-	-	5,945
TOTAL	22,356	30,444	1,028	1,364	55,192

34 SEGMENTAL INFORMATION (continued)

For management purposes the Bank also reports the segment information of its operations by the following geographical locations:

i. Oman
ii. United Arab Emirates (UAE)
iii. Egypt

Transactions between the above segments are conducted at estimated market rates.

Segment information by geography is as follows:

For the year ended 31 December 2023	Oman	UAE	Egypt	Total
	RO'000	RO'000	RO'000	RO'000
Net Interest income and Income from Islamic financing and Investment activities	105,390	5,148	4	110,542
Fees, Commission and other operating income	34,585	896	(156)	35,325
Operating income	139,975	6,044	(152)	145,867
Operating expenses	(59,694)	(2,136)	(79)	(61,909)
Operating profit	80,281	3,908	(231)	83,958
Total impairment losses (net) and taxation	(25,518)	(529)	118	(25,929)
SEGMENT PROFIT FOR THE YEAR	54,763	3,379	(113)	58,029
Other information				
Segment assets	4,671,277	149,703	1,026	4,822,006
SEGMENT CAPITAL EXPENSES	3,428	113	-	3,541

For the year ended 31 December 2023	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Net Interest income and Income from Islamic financing and Investment activities	273,741	13,371	10	287,122
Fees, Commission and other operating income	89,831	2,327	(405)	91,753
Operating income	363,572	15,698	(395)	378,875
Operating expenses	(155,050)	(5,548)	(205)	(160,803)
Operating profit	208,522	10,150	(600)	218,072
Total impairment losses (net) and taxation	(66,280)	(1,374)	306	(67,348)
SEGMENT PROFIT FOR THE YEAR	142,242	8,776	(294)	150,724
Other information				
Segment assets	12,133,187	388,839	2,665	12,524,691
SEGMENT CAPITAL EXPENSES	8,903	294	-	9,197

Note: Operating expenses does not include cost allocation.

Notes to the Financial Statements as at 31 December 2023

34 SEGMENTAL INFORMATION (continued)

Segment information by business line is as follows:

Year ended 31 December 2022	Retail Banking	Wholesale Banking	International Banking	Islamic Banking	Funding center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Net Interest income and net Income from Islamic financing and Investment activities	45,426	61,418	3,396	5,523	(12,224)	103,539
Fees, Commission and other operating income	14,310	18,746	511	1,100	31	34,698
Operating income	59,736	80,164	3,907	6,623	(12,193)	138,237
Operating expenditure	(36,000)	(16,577)	(4,274)	(3,758)	93	(60,516)
Operating profit/(loss)	23,736	63,587	(367)	2,865	(12,100)	77,721
Loan impairment (losses)/reversal	(4,320)	(13,773)	(638)	(1,518)	-	(20,249)
Net profit/(loss) before tax	19,416	49,814	(1,005)	1,347	(12,100)	57,472
Taxation	(2,346)	(6,020)	(2,357)	-	1,462	(9,261)
Net profit/(loss) after tax	17,070	43,794	(3,362)	1,347	(10,638)	48,211
TOTAL ASSETS	1,332,118	2,117,153	140,203	227,163	477,443	4,294,080
TOTAL LIABILITIES AND EQUITY	909,304	1,889,177	140,203	227,163	1,128,233	4,294,080

Year ended 31 December 2022	Retail Banking	Wholesale Banking	International Banking	Islamic Banking	Funding center	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Net Interest income and net Income from Islamic financing and Investment activities	117,990	159,527	8,821	14,345	(31,751)	268,932
Fees, Commission and other operating income	37,169	48,691	1,327	2,857	81	90,125
Operating income	155,159	208,218	10,148	17,202	(31,670)	359,057
Operating expenditure	(93,506)	(43,057)	(11,101)	(9,761)	241	(157,184)
Operating profit/(loss)	61,653	165,161	(953)	7,441	(31,429)	201,873
Loan impairment (losses)/reversal	(11,221)	(35,774)	(1,657)	(3,943)	-	(52,595)
Net profit/(loss) before tax	50,432	129,387	(2,610)	3,498	(31,429)	149,278
Taxation	(6,094)	(15,636)	(6,122)	-	3,797	(24,055)
Net profit/(loss) after tax	44,338	113,751	(8,732)	3,498	(27,632)	125,223
TOTAL ASSETS	3,460,047	5,499,099	364,164	590,034	1,240,111	11,153,455
TOTAL LIABILITIES AND EQUITY	2,361,829	4,906,953	364,164	590,034	2,930,475	11,153,455

34 SEGMENTAL INFORMATION (continued)

Disaggregated revenues 2022

IFRS15 requires the disclosure of disaggregated revenue from contracts with customers for major products / service lines. The below table provides disaggregation of commission and fee income (net) into revenues within Bank's reportable segments. Contract revenue is further segregated based on the products and services:

2022	Retail	Wholesale	International	Islamic	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Transactional	8,638	-	2	61	8,701
Trade Income	57	3,057	245	101	3,460
Account Services	93	997	(29)	31	1,092
Underwriting & Syndication	846	4,165	152	622	5,785
Investment banking	-	1,608	-	-	1,608
TOTAL	9,634	9,827	370	815	20,646

2022	Retail	Wholesale	International	Islamic	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Transactional	22,435	-	6	159	22,600
Trade Income	149	7,939	637	262	8,987
Account Services	242	2,590	(76)	80	2,836
Underwriting & Syndication	2,197	10,818	395	1,616	15,026
Investment banking	-	4,177	-	-	4,177
TOTAL	25,023	25,524	962	2,117	53,626

For management purposes the Bank also reports the segment information of its operations by the following geographical locations:

i. Oman
ii. United Arab Emirates (UAE)
iii. Egypt

Transactions between the above segments are conducted at estimated market rates.

34 SEGMENTAL INFORMATION (continued)

Segment information by geography is as follows:

For the year ended 31 December 2022	Oman	UAE	Egypt	Total
	RO'000	RO'000	RO'000	RO'000
Net Interest income and Income from Islamic financing and Investment activities	100,143	3,395	1	103,539
Fees, Commission and other operating income	34,187	972	(461)	34,698
Operating income	134,330	4,367	(460)	138,237
Operating expenses (refer note below)	(57,919)	(2,573)	(24)	(60,516)
Operating profit	76,411	1,794	(484)	77,721
Total impairment losses (net) and taxation	(26,515)	(2,995)	-	(29,510)
SEGMENT PROFIT FOR THE YEAR	49,896	(1,201)	(484)	48,211
Other information				
Segment assets	4,153,877	139,149	1,054	4,294,080
SEGMENT CAPITAL EXPENSES	2,141	26	-	2,167

Note : Operating expenses does not include cost allocation.

For the year ended 31 December 2022	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Net Interest income and Income from Islamic financing and Investment activities	260,111	8,818	3	268,932
Fees, Commission and other operating income	88,797	2,525	(1,197)	90,125
Operating income	348,908	11,343	(1,194)	359,057
Operating expenses (refer note below)	(150,439)	(6,683)	(62)	(157,184)
Operating profit	198,469	4,660	(1,256)	201,873
Total impairment losses (net) and taxation	(68,870)	(7,780)	-	(76,650)
SEGMENT PROFIT FOR THE YEAR	129,599	(3,120)	(1,256)	125,223
Other information				
Segment assets	10,789,291	361,426	2,738	11,153,455
SEGMENT CAPITAL EXPENSES	5,561	67	-	5,628

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2023 and 31 December 2022 are considered by the Management not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

1. Loans, advances and Islamic financing assets

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

2. Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

3. Current account balances due to and due from Banks

The carrying amount of current account balances due to and from Banks was considered to be a reasonable estimate of fair value due to their short term nature.

4. Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

5. Other financial instruments

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

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on

35 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation models (continued)

observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Total	Level 2	Level 1		Level 1	Level 2	Total
USD'000	**USD'000**	**USD'000**	**31 December 2023**	**RO'000**	**RO'000**	**RO'000**
			INVESTMENT MEASURED AT FVTPL			
4,862	**-**	**4,862**	Quoted equities	**1,852**	**-**	**1,852**
6,283	**6,283**	**-**	Unquoted equities	**-**	**2,585**	**2,585**
11,145	**6,283**	**4,862**	**TOTAL**	**1,852**	**2,585**	**4,437**
			INVESTMENT MEASURED AT FVOCI			
160,821	**-**	**160,821**	Quoted equities	**61,916**	**-**	**61,916**
160,821	**-**	**160,821**	**TOTAL**	**61,916**	**-**	**61,916**
171,966	**6,283**	**165,683**	**TOTAL FINANCIAL ASSETS**	**63,768**	**2,585**	**66,353**

Total	Level 2	Level 1		Level 1	Level 2	Total
USD'000	USD'000	USD'000	31 December 2022	RO'000	RO'000	RO'000
			INVESTMENT MEASURED AT FVTPL			
4,863	-	4,863	Quoted equities	1,872	-	1,872
6,283	6,283	-	Unquoted equities	-	2,419	2,419
11,146	6,283	4,863	TOTAL	1,872	2,419	4,291
			INVESTMENT MEASURED AT FVOCI			
124,036	-	124,036	Quoted equities	47,754	-	47,754
124,036	-	124,036	TOTAL	47,754	-	47,754
135,182	6,283	128,899	TOTAL FINANCIAL ASSETS	49,626	2,419	52,045

The Bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 36). There are no transfers between levels of fair value measurement hierarchy during the years ended 31 December 2023 and 2022.

36 DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions with customers and for own account for hedging purpose that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The Bank uses the following derivative financial instruments:

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

36 DERIVATIVES (continued)

Derivative product types

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The Bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure.

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in the fair values of fixed-rate euro medium term notes (EMTN) issued in respect of the USD LIBOR benchmark interest rate. Pay-floating / receive-fixed interest rate swaps are matched to specific issuances of fixed-rate EMTN with terms that closely align with the critical terms of the hedged item.

The Bank's approach to managing market risk, including interest rate risk, is discussed in Note 32. The Bank's exposure to interest rate risk is disclosed in Note 32.3. Interest rate risk to which the Bank applies hedge accounting arises from fixed-rate senior unsecured bonds issued. The Bank hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed-rate EMTN is significantly influenced by changes in the benchmark interest rate USD SOFR. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Bank also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Bank minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is higher than A, requiring counterparties to post collateral and clearing through CCPs.

Before fair value hedge accounting is applied by the Bank, the Bank determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Bank evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks. The Bank further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the fair value of the hedged item.

The Bank establishes a hedge ratio by aligning the par amount of the fixed-rate senior unsecured bonds and the notional amount of the interest rate swap designated as a hedging instrument. Under the Bank policy, in order to conclude that a hedging relationship is effective, economic relationship between the hedged item and the hedging instrument should exist along with critical terms (such as the nominal amount, maturity and underlying) of the hedging instrument and the hedged item match or are closely aligned.

In these hedging relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Bank's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- differences in maturities of the interest rate swap and the loans or the notes.

36 DERIVATIVES (continued)

Fair value hedges of interest rate risk (continued

There were no other sources of ineffectiveness in these hedging relationships.

The effective portion of fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in net interest income.

The amounts relating to items designated as hedging instruments at 31 December 2022 as disclosed below.

The table below shows the positive and negative fair values of derivative financial instruments entered with and on behalf of customers, 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				Notional amounts by term to maturity		
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 - 12 months	More
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	(note 9)	(note 13)				
Interest rate swaps	13,847	(13,847)	309,687	8,203	25,091	276,393
Forward foreign exchange purchase contracts	29	(21)	192,604	135,904	56,700	-
Forward foreign exchange sales contracts	136	(100)	192,604	135,925	56,679	-
TOTAL	14,012	(13,968)	694,895	280,032	138,470	276,393
TOTAL – USD'000	36,395	(36,281)	1,804,922	727,356	359,662	717,904

31 December 2022				Notional amounts by term to maturity		
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 - 12 months	More
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	(note 9)	(note 13)				
Fair Value hedge - EMTN	-	(3,635)	192,500	-	-	192,500
Interest rate swaps	20,557	(20,557)	442,065	13,131	31,662	397,272
Forward foreign exchange purchase contracts	4	(50)	388,784	143,828	244,956	-
Forward foreign exchange sales contracts	286	(93)	388,784	143,860	244,924	-
TOTAL	20,847	(24,335)	1,412,133	300,819	521,542	589,772
TOTAL – USD'000	54,148	(63,208)	3,667,878	781,348	1,354,655	1,531,875

37 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2022 have been reclassified in order to conform with the presentation for the current year. Such reclassifications include a change in cash an cash equivalents. These reclassifcations were made to improve the quality of presentation and do not affect the previously reported profit or equity.

6

Muzn **Islamic Banking**

Muzn Islamic Banking

"In the name of Allah, the Merciful, The Very Merciful"

Report of Shari'a Supervisory Board
Muzn Islamic Banking
National Bank of Oman
The Sultanate of Oman

Dear Shareholders of National Bank of Oman

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

Pursuant to the guidelines set out in the Islamic Banking Regulatory Framework issued by the Central Bank of Oman, the Shari'a Supervisory Board of the Bank ("SSB") prepared a report on the business and transactions of the bank during the year. The objective of this report is to illustrate the extent of the Bank's compliance with Islamic Shari'a rulings and principles as set out in the pronouncements and resolutions of the SSB.

For the purpose of reviewing and following up on the activities of the Bank, the SSB held four meetings during 2023 in addition to responding to many enquiries raised to the SSB either through email or phone. The SSB reviewed the reports submitted by the Shari'a Compliance and Audit Department on all products and operations of the Bank during this period and made the appropriate resolutions in their regard, either through approving the reported cases or providing appropriate solutions for such cases.

We have also conducted our review to form an opinion as to whether the Bank complied with Shari'a principles and also with the specific Shari'a pronouncements, rulings and guidelines issued by the SSB.

We planned and executed our review to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Shari'a principles.

As per our opinion, we conclude:

a) The Contracts, transactions, and dealings entered into by the Bank during the year ended 31st December 2023 that we have reviewed are in compliance with Shari'a principles.

b) In relation to the investment account, the basis of allocating the profits and bearing the losses conform to the basis that had been approved by us in accordance with Shari'a principles.

c) No earnings have been realized from sources which are Shari'a non-compliant. Late payment charges have been identified and recovered for disposal to charity.

d) Calculation and payment of Zakah is the individual responsibility of Shareholders and Depositors.

We beg Allah the Almighty to grant us all success and straightforwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Dr. Muhammad Zubair Usmani

Chairman Shari'a Supervisory Board

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Agreed-Upon Procedures Report on Muzn Islamic Banking's (Islamic window of National Bank of Oman SAOG) Basel II - Pillar III and Basel III Disclosures

To the Board of Directors of National Bank of SAOG

Purpose of this Agreed-Upon Procedures Report and Restriction on Use

Our report is solely for the purpose of assisting National Bank of Oman SAOG ("the Bank") for evaluating the Muzn 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 our engagement dated 11 January 2022, on the Islamic Window of the Bank's Basel II – Pillar III and Basel III Disclosures:

S. No	Procedures	Findings
1	We have performed the procedures prescribed the CBO under Circular No. IB 1 dated 18 December 2012 ("the Procedures") and BM 1114 dated 17 November 2013 with respect to the Disclosure 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.

Kenneth Macfarlane
11 March 2024

KPMG LLC

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Sultanate of Oman
CR.No: 1358131

Enclosures:
Muzn Islamic Banking's Basel II – Pillar III & Basel III Disclosures.

BASEL II and III - PILLAR III Report 2023

Introduction

Muzn Islamic Banking - Window of National Bank of Oman SAOG, was established in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Sharia rules and regulations.

Muzn operates under an Islamic Banking license granted by the Central Bank of Oman on 17 January 2013. Muzn's Sharia Supervisory Board is entrusted to ensure adherence to Sharia rules and principles in its transactions and activities. This document presents Basel II, Pillar III disclosure pertaining to Muzn on a standalone basis. There is no restriction on the transfer of the funds from the bank towards Muzn. However, under the Islamic Banking regulatory framework (IBRF), Muzn cannot place funds with the bank. Muzn does not hold controlling interest in any other entity.

CAPITAL STRUCTURE

The assigned capital of the MUZN ISLAMIC BANKING as at 31 December 2023 is RO 35,000,000 (2022: RO 20,000,000). Muzn' s capital structure as at close of 31 December 2023, based on Central Bank of Oman's (CBO) guidelines is as follows:

Elements of Capital	Amount in RO 000's
TIER I CAPITAL	
Local Banks	
Assigned capital	35,000
Share premium	-
Legal reserve	-
General reserve	-
Other reserve	7
Subordinated debt reserve	-
Stock dividend (Proposed)	-
Retained earnings	8,648
Common equity Tier 1 before regulatory adjustments	**43,655**
Deduction	
Deferred tax asset	-
Common equity Tier 1	**43,655**
Tier I capital after all deductions	**43,655**
TIER II CAPITAL	
Revaluation reserves / Cumulative fair value gains or losses on available for sale instruments	-
Permissible ECL Allowance	1,938
Subordinated debt (After amortization)	-
Total Tier II Capital	**1,938**
Total Regulatory Capital	**45,593**
Amount of investment account holders funds	300,114
Profit equalization reserve	799
Investment risk reserve	332
Total Investment account holders	**301,245**

BASEL II and III - PILLAR III Report 2023

CAPITAL ADEQUACY

Qualitative Disclosures:

The ultimate objectives of capital management are three-fold:

- Ensure stability of the Islamic window by holding enough capital to cover unexpected loss;
- Enhance the efficiency of the Bank, by increasing the risk adjusted return at various levels of aggregation (and thereby ensuring that "excess" capital is not held unnecessarily);
- Incentivize informed decision making and proactive risk management through an efficient and effective allocation of capital across the business.

The capital management plan envisaged for Muzn is based on the regulatory risk capital framework of Basel II and uses the standardized approach for calculating the credit as well market risk, and the basic indicator approach for operational risk as prescribed by CBO.

The capital management policy is aligned to the policy of the Bank and aims to ensure that on a risk adjusted return on capital basis (RAROC), Muzn is allocated an appropriate amount of capital. The RAROC model has been implemented for the entire portfolio except for Retail banking where the Central Bank of Oman has defined caps on profit rates, which are followed.

The Asset Liability Committee (ALCO) currently reviews and monitors capital adequacy and requirements for capital on an ongoing basis for the Muzn window. Risk weights are assigned to assets as per regulatory requirements from CBO. Assets funded by investment accounts are also assigned same risk weights as assets funded by own equity.

Qualitative Disclosures:

A set of triggers is followed as part of the capital management so as to provide the bank with an early warning system in terms of its level of capital, and to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits. For this purpose, it has been decided by ALCO that the triggers set for the Bank will become applicable for Muzn as well.

The Bank prepares ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. Following the guidelines issued by the Central Bank of Oman in December 2012, assessment under ICAAP comprehensively for the whole bank is carried out and submitted to the Central Bank of Oman in accordance with the prescribed guidelines. The bank will also factor in the regulatory guidelines, wherever applicable on Basel III, while carrying out its assessment. Currently, a separate ICAAP is not prepared for Muzn.

Quantitative Disclosures:

Position as at 31 December 2023

Details	Amount
Tier I capital (after supervisory deductions)	**43,648**
Tier II capital (after supervisory deductions & up to eligible limits)	**1,945**
Risk Weighted Assets (RWAs) – Banking Book	**258,183**
Risk Weighted Assets (RWAs) – Operational Risk	**10,979**
Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk	**269,162**
Minimum required capital to support RWAs of banking book and operational risk	32,972
Minimum required capital comprises of;	
i) Tier I capital	31,027
ii) Tier II capital	1,945
Balance Tier I capital available for supporting Trading Book	12,621
Risk Weighted Assets (RWAs) – Trading Book	**2,579**
Total capital required to support Trading Book	316
Minimum Tier I capital required for supporting Trading Book	90
TOTAL REGULATORY CAPITAL	**45,593**
Total Risk Weighted Assets – Islamic Window	**271,741**
BIS CAPITAL ADEQUACY RATIO	**16.78**

BASEL II and III - PILLAR III Report 2023

BASEL III Disclosures:

In compliance with CBO circular BM 1114 dated 17 November 2013; mandatory disclosures are made in this report.

Certain additional capital adequacy disclosures are as follows:

Position as at 31 December 2023

Details	Gross balance (Book value)	Net balance (Book value)	Risk Weighted Assets
On balance sheet items	382,400	375,799	251,166
Off balance sheet items	12,744	12,744	7,017
Derivatives	-	-	-
Operational Risk	-	-	10,979
Market Risk	-	-	2,579
TOTAL	**395,144**	**388,543**	**271,741**
Common equity Tier I Capital	-	-	43,648
Tier 2 Capital	-	-	1,945
Tier 3 Capital	-	-	-
TOTAL REGULATORY CAPITAL	-	-	**45,593**
Total required Capital	-	-	33,288
Capital requirement for credit risk	-	-	31,627
Capital requirement for market risk	-	-	316
Capital requirement for operational risk	-	-	1,345
Common equity Tier 1 Ratio			
Tier I Ratio	-	-	**16.06**
TOTAL CAPITAL RATIO	-	-	**16.78**

Disclosures for Investment Account Holders (IAH)

Muzn accepts funds from investment account holders (IAH) under Sharia compliant Mudaraba contracts and Wakala agreements. These funds are unrestricted in nature i.e. it is at the discretion of Muzn to invest in any Sharia compliant assets. There are no limits on the investment of IAH fund in any particular type of asset.

Currently, Muzn offers three types of Investment accounts:

- Savings accounts;
- Term deposits of various maturities from 1 month to five years; and
- Flex Wakala.

Investment from investment account holders (IAH) is pooled with Muzn's funds. Fee based income is not allocated to the joint pool. From the distributable profits earned by the pool assets, and after charging Mudarib share, allocation is made between shareholder funds and funds of IAH.

Under Wakala arrangement for Islamic Wakala Investment, the customer becomes the Principal (Muwakkil), and Muzn becomes the Investment Agent (Wakeel) for the funds invested by the customer. Muzn will accept deposits from Wakala Investment holders under a Wakala agreement and allocate these funds to an investment pool. While accepting the deposit from the customers, Bank informs the "Expected Targeted Profit Rate" on the deposit. Funds from this investment pool will be utilized to provide financing to customers under Islamic modes and to invest in other Shari'a compliant investments opportunity. The profit earned from the investment and financing activities from the investment pool, shall be paid to the investors (as the Muwakkil) based on their pre-assigned weightages less performance fee and the fixed fees payable to the bank (as a Wakeel). Investor's share of profit shall be returned to the investors together with the principal on maturity date.

Muzn appropriates an amount in excess of the profit to be distributed to investment account holders before taking into consideration the Mudarib (Manager of assets) share of income. This reserve is called Profit Equalization Reserve (PER). Further, Investment Risk Reserve (IRR) is also maintained out of the income of investment account holders, after allocating the mudarib share, in order to cater against future losses for investment account holders.

BASEL II and III - PILLAR III Report 2023

Ratios and returns

Profit Equalization Reserve (PER) to Profit Sharing Investment Account (PSIA)

PARTICULARS (RO'000)	2023	2022
Amount of Total PER	**799**	645
Amount of PSIA by IAH	**301,245**	180,760
PER TO PSIA RATIO	**0.27%**	0.36%

Investment Risk Reserves (IRR) to Profit Sharing Investment Account (PSIA)

PARTICULARS (RO'000)	2023	2022
Amount of Total IRR	**332**	262
Amount of PSIA by IAH	**301,245**	180,760
IRR TO PSIA RATIO	**0.11%**	0.14%

Return on Assets (ROA)

PARTICULARS (RO'000)	2023	2022
Amount of total net income (before distribution of profit to unrestricted IAH)	**12,761**	7,971
Amount of assets	**375,799**	222,508
RETURN ON ASSETS (ROA)	**3.40%**	3.58%

Return on Equity (ROE)

PARTICULARS (RO'000)	2023	2022
Amount of total net income (after distribution of profit to unrestricted IAH)	**2,664**	2,637
Amount of equity	**44,269**	26,566
RETURN ON EQUITY (ROE)	**6.02%**	9.93%

BASEL II and III - PILLAR III Report 2023

Rate of profit distributed to PSIA by type of IAH & Wakala Accounts

As at reporting date, Muzn has unrestricted IAH and Wakala Accounts and has distributed profit amounting RO 10,097 (000s) during the year.

Latest Profit rates paid to investment account holders for year ended 31 December 2023

	Weightages	Declared Profit Rate
Savings Account (Mudarabah)	15	0.54%
Flexi Wakala	50	0.10%
Flexi Wakala - Elite	55	2.25%
Flexi Wakala - Premium	50	1.75%
Wakala- Up to 6 months	55	0.25% - 1.75%
Wakala - 6 months to 1 Year	60	1.75% - 3.25%
Wakala - 1 Year to 3 Years	65	3.25% - 3.75%
Wakala - 3 Years	70	3.75% - 4.25%
Government Flexi Wakala	70	0.75%

BASEL II and III - PILLAR III Report 2023

Jointly Funded Assets and Return to IAH

	31 December 2023 RO'000	31 December 2022 RO'000
ASSETS		
Murabaha receivables	**10,661**	5,181
Ijarah Muntahia Bittamleek	**48,883**	56,243
Diminishing Musharaka	**135,685**	118,034
Forward Ijara	**345**	492
Service Ijarah	**18**	21
Wakala Bil Istithmar	**71,159**	-
TOTAL AMOUNT INVESTED	**266,751**	179,971
Share of profit of IAH before PER and IRR for the year	**10,321**	5,472
Transfers to:		
PER	**(154)**	(97)
IRR	**(70)**	(41)
Share of profit of IAH after PER and IRR for the year	**10,097**	5,334

BASEL II and III - PILLAR III Report 2023

RISK EXPOSURE AND ASSESSMENT

Risk Management

The primary objective of risk management is to appropriately safeguard the Bank's resources from the various risks which the Bank faces. Muzn's risk management incorporates the same essential principles and practices that govern the Bank's risk management which are detailed in the Bank's Basel II disclosures.

Bank's risk management processes have proven effective for Muzn throughout the current year. The Bank's Board of Directors have remained closely involved with key risk management initiatives, and ensured that Muzn's risks are effectively managed and adequate capital is held in line with the requirements. Detailed risk governance structure of the bank, which is also applicable to Muzn is disclosed in the main Pillar III document of the bank. In addition, a dedicated Sharia Supervisory Board (SSB) has been established which reports to the Board of Directors of the bank and ensures Sharia compliance in the operations of Muzn.

Specifically, Muzn has exposure to the following risks.

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Rate of return risk, and
- Displaced commercial risk

Credit Risk

Credit risk is the risk of financial loss to Muzn if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Muzn's financings and advances to customers and other banks.

Corporate Credit:

Muzn manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman.

Muzn has a prudent provisioning policy for its financings and provisions are made taking into account both the Central Bank's norms and Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

For risk management reporting purposes for the corporate portfolio, Muzn considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Retail Credit:

Retail Credit Division manages the credit risk in the Muzn retail portfolio. The small retail credit portfolio is focused on Ijara, Murabaha and Diminishing Musharaka product programs approved by the Board Risk Committee. Both corporate and retail credit portfolios are monitored by the management through periodic performance reports which are presented to the Board Risk Committee.

Impairment Loss on Finances:

Muzn reviews its individually significant Finances at each reporting date to assess whether an impairment loss should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cashflows when determining the impairment loss. In estimating these cash flows, Muzn makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about several factors and actual results may differ, resulting in future changes to the allowance.

Finances that have been assessed individually and found not to be impaired and all individually insignificant finances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from loan portfolio (such as credit quality, levels of arrears, credit utilization, finance to collateral ratios etc.) and concentration risks.

A) Definition of default and cure

The Window considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Window considers treasury and interbank balances defaulted and takes immediate

BASEL II and III - PILLAR III Report 2023

action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Window also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default.
- The borrower requesting emergency funding from the Window.
- The borrower having past due liabilities to public creditors or employees.
- The borrower is deceased.
- A material decreases in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral.
- A material decreases in the borrower's turnover or the loss of a major customer.
- A covenant breach not waived by the Window.
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/ protection. Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

It is the Window's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

B) Incorporation of forward-looking information

The Window incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Window formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Given the nature of the Window's exposures and availability of historical statistically reliable information, the Window derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

C) Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarized in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimization of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman).
2. The base scenario was created on the assumption of stabilization of oil price at the level of 66 USD/ barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:

    a. historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
    b. size of the detachment equal to plus/minus 0.87 standard deviation from the base scenario as an approximate representation of 33.33% probability of alternative (adverse and favorable) scenarios,
    c. the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favorable).

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4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

D) Corporate and small business lending

For corporate and investment banking Islamic finances, the borrowers are assessed by specialized credit risk employees of the window. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer financing and retail financing

Consumer financing comprises Murabaha, Ijarah, and Diminishing Musharaka. These products along with retail financing and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer financing products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.
- Retail financing: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

E) Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 financing, the Window assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 financing that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Window determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Window's models.

F) Loss given default

For Islamic financing instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Window's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

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The Window segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the bank.

The Window estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

G) Significant Increase in Credit Risk

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

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

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.
c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
d. Frequent changes in key senior management personnel without acceptable successors or professional management.
e. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
f. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

Management overlays may be applied to the model outputs if consistent with the objective of identifying a significant increase in credit risk.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Window determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When the contractual terms of a financing have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

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The Window monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Where appropriate, the Window makes adjustments to the ECL estimate outside the Window's regular modelling process to reflect management judgements. The changes to the assumptions underlying these judgemental adjustments could materially affect ECL within the next 12 months. These adjustments include post-model adjustments (PMAs) and overlays.

PMAs are adjustments to the ECL balance as part of the year-end reporting process to reflect late updates to market data, known model deficiencies and expert credit judgement. They are usually calculated and allocated at a granular level through modelled analysis, calculated separately for each economic scenario and where appropriate used to adjust stage allocation outcomes.

Overlays are adjustments to the ECL model outputs that have been made outside the detailed ECL calculation and reporting process. These do not meet the Window's definition of PMAs because they are not calculated at a granular level through modelled analysis.

The Window has internal governance frameworks and controls in place to assess the appropriateness of all judgmental adjustments. The aim of the Window is to incorporate these adjustments into the ECL models, where possible, as part of the periodic recalibration and model assessment procedures.

Total judgmental adjustments as at 31 December 2023 increased the loss allowance by 1.22% compared to ECL allowance derived through the ECL models.

H) Model risk management

The Window has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Window has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of the bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Window has a practice of doing independent validation of model which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defense for the Window in terms of usage of models.

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(i) Total gross credit exposures over the period broken down by major types of credit exposure:

S. No	Type of Credit Exposure	Total Gross Exposure as at	
		31-December-23	31-December-22
		RO'000	RO'000
1	Murabaha receivables	10,722	5,219
2	Ijarah Muntahia Bittamleek	49,918	57,048
3	Diminishing Musharaka	140,973	121,970
4	Forward Ijara	352	498
5	Service Ijarah	18	21
6	Wakala Bil Istithmar	71,342	-
	TOTAL	**273,325**	184,756

(ii) Geographic distribution of exposures by major types of credit exposure as at 31 December 2023:

As at 31 December 2023, all the credit exposures are within Oman (2022: all exposures within Oman).

(iii) Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2023:

S. No.	Economic Sector	Deferred sales under Murabaha	Ijarah	Diminishing Musharaka	Forward Ijara	Service Ijara	Wakala Bil Istithmar	Total	Percentage composition	Off Balance sheet exposure*
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	%	RO'000
1	Personal	5,762	43,627	18,304	329	18	-	68,040	25%	429
2	Construction	-	5,302	73,964	23	-	-	79,289	29%	14,530
3	Manufacturing	1,778	96	9,242	-	-	-	11,116	4%	-
4	Trade	2,356	-	-	-	-	-	2,356	1%	-
5	Services	826	893	39,463	-	-	71,342	112,524	41%	-
6	Others	-	-	-	-	-	-	-	0%	9,624
	TOTAL	**10,722**	**49,918**	**140,973**	**352**	**18**	**71,342**	**273,325**	**100%**	**24,583**

*Off balance sheet exposure relates to commitments under standard business norms, letter of credits, guarantees.

As at 31 December 2023, the assets were funded by IAH & Wakala Account and shareholders in the following ratio:

IAH & Wakala Accounts	**80%**
Shareholders	**20%**

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(iv) Residual contractual maturity as at 31 December 2023 of the whole financing portfolio, broken down by major types of credit exposure:

S. No	Time Band	Deferred sales under Murabaha	Ijara	Diminishing Musharaka	Forward Ijara	Service Ijara	Wakala Bil Istithmar	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Up to 1 month	2,687	287	541	-	-	1,600	5,115
2	1-6 months	2,743	1,613	3,726	-	2	2,060	10,144
3	6-12 months	1,115	1,554	4,685	-	2	2,128	9,484
4	1-5 years	1,920	5,207	15,916	-	9	10,841	33,893
5	Over 5 years	2,196	40,222	110,817	345	5	54,530	208,115
	TOTAL	**10,661**	**48,883**	**135,685**	**345**	**18**	**71,159**	**266,751**

(v) Movement of gross finance:

Movement of Gross Finances during the year ended 31 December 2023					
S. No	**Details**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
		RO'000	RO'000	RO'000	RO'000
1	Opening balance	111,366	69,747	3,643	184,756
2	Migration / changes (+ / -)	(1,002)	133	869	-
3	New Finances (+)	93,716	13,769	-	107,485
4	Recovery of Financing (-)	8,804	10,064	48	18,916
5	**Closing balance**	**195,276**	**73,585**	**4,464**	**273,325**
6	Total ECL	409	4,311	1,854	6,574

(vi) Movement of Provisions and Reserve Profit:

PARTICULARS	2023	2022
	RO'000	RO'000
Provision at beginning of the period	**4,818**	3,067
Charge / (Released) for the period	**1,690**	1,519
Reserve Profit for the period	**98**	232
Provision at end of the period	**6,606**	4,818

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Credit Risk –Disclosures for portfolios subject to the standardized approach.

Qualitative Disclosures:

- The bank is following Moody's rating for both sovereign and interbank exposures and the unrated balance is considered at 100% risk.
- With the approval of the CBO, the bank uses the discretion to treat Finances as unrated at risk weight of 100%, except housing finances which are risk weighted at 35% based on the requirements as stipulated in the guidelines issued by CBO.
- Similarly, with the approval of CBO, the bank uses the discretion of the simple approach for recognising collaterals.

Quantitative Disclosures:

Gross exposure amount as at 31 December 2023, subject to the standardized approach is as below:

S.No	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	RATED							
1	Sovereign	42,985	-	-	-	-	-	42,985
2	Banks	-	28,408	-	10,000	19,250	-	57,658
	UNRATED							
1	Corporate	20,000	-	-	-	69,742	-	89,742
2	Retail	-	-	-	-	5,733	-	5,733
3	Claims secured by residential property	-	-	58,118	-	3,804	-	61,922
4	Claims secured by commercial property	-	-	-	-	109,578	-	109,578
5	Past due Financing	-	-	-	-	6,351	-	6,351
6	Other assets	892	-	-	-	7,542	-	8,434
7	Venture Capital & Private Equity Investments	-	-	-	-	-	-	-
8	Off-balance Sheet Items	-	3,052	-	6,572	3,121	-	12,744
	TOTAL BANKING BOOK	**63,877**	**31,460**	**58,118**	**16,572**	**225,121**	**-**	**395,147**

Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate credit risks that the Muzn is exposed to. Credit risk mitigates reduce the credit risk by allowing Muzn to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Qualitative Disclosure

The Bank only considers Sharia approved collaterals and guarantees to mitigate credit risk. Assets offered by the customer must meet the following criteria to be acceptable as collateral:

- Assets must be maintaining their value at the level prevalent at inception, until maturity of the facility approved;
- Such assets should be easily convertible into cash, if required;
- There should be a reasonable market for the assets; and
- Muzn should be able to enforce its right over the assets if necessary.

Currently Muzn undertakes ownership/joint ownership of assets provided by customers.

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Collateral Management:

Muzn employs a range of policies and procedures to mitigate credit risk. The credit risk mitigates include collaterals like:

- Real estate
- Joint ownership

Collateral management is exercised for Muzn at the centralized level. A robust collateral management system is in place to mitigate any credit risk. The Bank has a strong credit administration process that ensures compliance with terms of approval, documentation and continuous review to ensure quality of credit and collaterals.

Securities obtained by way of legal mortgage over real estate to be valued at least once in 3 years or more frequently if situation warrants.

Liquidity Risk

Liquidity Risk is defined as the ability to suitably sell the assets and meet obligations as they come due, is crucial to the ongoing viability of a banking organization. For this reason, the analysis of liquidity requires the bank management to not only measure the liquidity position of the bank on an on-going basis but also examine how funding requirements are likely to evolve under various scenarios. Muzn manages its liquidity on a daily basis through its Treasury. In managing liquidity, Muzn takes into account the various regulatory requirements.

Muzn Treasury division ensures compliance with the liquidity ratios and the maturity gaps vis-à-vis the regulatory/in house caps/limits.

Market Risk and Muzn Treasury divisions will evaluate on an on-going basis the liquidity profile of the Bank, depending on the changing market conditions. Liquidity will be estimated under Bank specific crisis scenarios and Market crisis scenarios; with suitable assumptions built into each scenario.

Qualitative Disclosures:

Liquidity may be defined as a Muzn's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk can in turn be defined as the risk to earnings and capital arising from a Muzn's potential inability to meet its liabilities when they become due.

Besides its funding sources, Muzn has the support of its Parent Bank in meeting some of its liquidity needs.

The liquidity risk in Muzn is monitored through a regular reporting mechanism to the ALCO. In order to ensure that Muzn meets its financial obligations as and when they fall due, cash flow positions are closely monitored. Sufficient liquidity is required to be maintained by Banks not only for ensuring the continuation of operations, but also for the generation of earning assets and repayment of existing liabilities.

Liquidity ratios of Muzn (i.e. Liquid assets to total assets) are regularly monitored. The average ratio of liquid assets to total assets during the year for Muzn was 17.75% (as shown below). In addition, the cumulative gaps vis-à-vis cumulative liabilities prescribed by the Regulators/Internal Policies are monitored.

Muzn monitors its liquidity risk of funding related to current accounts and other equity with investment account holders on an individual basis as well as on an aggregate basis through cash flow and stock approach.

Treasury department of the Muzn window and the Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds through Sharia compliant financing and investment activities.

Indicators of exposure to liquidity risk – short-term assets to short-term liabilities.

PARTICULARS	RO'000
Short-term Assets	106,625
Short-term Liabilities	213,841
Short-term Assets to Liabilities	49.86%

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Indicators of exposure to liquidity risk - liquid assets ratio

Particulars	RO'000
Liquid Assets	105,335
Total Assets	375,799
Short-term Liabilities	213,841
Total Liabilities	331,530
Liquid Assets to Total Assets	**28.03%**
Liquid Assets to Short-term Liabilities	**49.26%**
Liquid Assets to Total Liabilities	**31.77%**

Quantitative Disclosures:

The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at 31 December 2023 was as follows:

31 December 2023	Due on demand and up to 30 days	More than 1 month to	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	14,312	2,344	1,417	2,051	1,461	21,585
Due from banks and financial institutions	38,391	19,250	-	-	-	57,641
Investments in Sukuk, shares and other securities	1,566	1,069	-	4,185	19,289	26,109
Deferred sales under Murabaha	2,687	2,743	1,115	1,920	2,196	10,661
Ijara	287	1,613	1,554	5,207	40,222	48,883
Diminishing Musharaka	541	3,726	4,685	15,916	110,817	135,685
Forward Ijarah	-	-	-	-	345	345
Service Ijarah	-	2	2	9	5	18
Wakala Bil Istithmar	1,600	2,060	2,128	10,841	54,530	71,159
Property and equipment	-	-	-	-	180	180
Other assets	3,533	-	-	-	-	3,533
TOTAL ASSETS	62,917	32,807	10,901	40,129	229,045	375,799
Current accounts	4,494	7,864	4,494	-	5,617	22,469
Due to banks and financial institutions	786	-	-	-	-	786
Other liabilities	7,030	-	-	-	-	7,030
Unrestricted investment account holders	43,119	101,835	44,219	67,614	44,458	301,245
Mudaraba savings account (including reserves)	838	1,676	1,676	2,513	2,807	9,510
Due to banks and financial institutions under Wakala	18,969	29,652	-	-	-	48,621
Customer Wakala accounts	23,312	70,507	42,543	65,101	41,651	243,114
Owner's equity	-	-	-	-	44,269	44,269
Total liabilities and Unrestricted investment accountholders and owners' equity	55,429	109,699	48,713	67,614	94,344	375,799
TOTAL LIQUIDITY GAP	7,488	(76,892)	(37,812)	(27,485)	134,701	-
CUMULATIVE LIQUIDITY GAP	7,488	(69,404)	(107,216)	(134,701)	-	-

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Market Risk

Qualitative Disclosures:

Market risk is the risk of a change in the actual or effective market value and earnings of a portfolio due to the adverse movements in market variables. The market variables inter-alia includes equity prices, bond price, commodity price and Foreign Exchange rates. The objective of Market Risk management is to facilitate business growth but operating at the optimal risk levels.

As at 31 December 2023, Muzn has minimal exposure to market risk as:

- Muzn does not have material exposure in currencies other than Omani Riyal;
- Muzn does not hold trading positions in equity;
- Muzn has no position in commodities.

Market Risk arises from fluctuations in profit rates. There are no trading positions in equities or derivatives. Market Risk is managed based on Central Bank of Oman guidelines. The Muzn ALCO regularly monitors the portfolio of assets and liabilities in the banking book for any interest rate risks. Stress tests are also conducted periodically to analyze the impact of Bank and market specific stress factors crises on the earnings and capital of the Bank. The results are reviewed by ALCO, Management and Board Committee.

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses. Muzn cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Muzn is able to manage risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

The bank follows basic indicator approach for determining operational risk.

The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net profit income (+) other income (+) Provisions for unpaid profit (-) realized profit on sale of Investments measured through equity (-) extraordinary / irregular items of income.

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 777 (000s).

The Risk weighted assets for operational risk as per Basel II is RO 9,712 (000s).

Insurance is another tool used by the bank as an operational risk mitigant. Insurance such as Bankers' Blanket Bond, Electronic and Computer Crimes, Professional Indemnity, incomplete transactions, etc as obtained by the bank aim at protecting the bank from high severity risks by reducing the financial impact of the same.

In addition to the above and in order to keep control of operational incidences / losses the bank has set in place a special operational risk framework against which incidents / losses are being monitored regularly for possible breaches and appropriate mitigates are put in place.

Rate of return risk

Qualitative Disclosures:

Rate of return risk refers to the possible impact on the net income of Muzn 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 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 Muzn.

The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Muzn is not subject to any significant profit rate risk. However, the profit sharing agreements will result in Displaced Commercial Risk (DCR) when Muzn' s results do not allow distribution of profits in line with market rates. To cater against DCR, Muzn creates a Profit Equalization Reserve.

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Rate of return risk (continued)

Rate of return risk is managed by monitoring the sensitivity of the bank's financial assets and liabilities to various standardized profit rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Quantitative Disclosures:

The assumptions used to measure the sensitivity is parallel shift in interest rate by 200 basis points (bps) to measure the sensitivity of earnings and profit rate sensitivity of capital.

As at December 2023	200 bps increase	200 bps decrease
Earnings impact - RO'000s	140	(140)

Muzn's profit sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2023 was as follows:

31 December 2023	Effective average profit rate	Due on demand and within 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman ("CBO")		-	-	-	-	21,585	21,585
Due from banks and financial Institutions	0.0%	57,641	-	-	-	-	57,641
Investments in Sukuk, shares and other securities	5.1%	2,634	-	13,844	9,631	-	26,109
Deferred sales under Murabaha	5.4%	5,430	1,115	1,920	2,196	-	10,661
Ijara	5.3%	1,900	1,554	5,207	40,222	-	48,883
Diminishing Musharaka	5.8%	4,267	4,685	15,916	110,817	-	135,685
Forward Ijarah	5.8%	-	-	-	-	345	345
Service Ijarah	4.5%	2	2	9	5	-	18
Wakala Bil Istithmar	7.4%	3,660	2,128	10,841	54,530	-	71,159
Property and equipment – net	N/A	-	-	-	-	180	180
Other assets	N/A	-	-	-	-	3,533	3,533
TOTAL ASSETS		75,534	9,484	47,737	217,401	25,643	375,799
Current accounts	N/A	-	-	-	-	22,469	22,469
Due to banks and financial institutions	0.0%	786	-	-	-	-	786
Other liabilities	N/A	-	-	-	-	7,030	7,030
Unrestricted investment account holders	N/A	115,302	73,871	67,614	44,458	-	301,245
Mudaraba savings account (including reserves)	0.6%	2,514	1,676	2,513	2,807	-	9,510
Due to banks and financial institutions under Wakala	2.3%	18,969	29,652	-	-	-	48,621
Customer Wakala accounts	3.5%	93,819	42,543	65,101	41,651	-	243,114
Owners' equity	N/A	-	-	-	-	44,269	44,269
Total liabilities and owners' equity	N/A	116,088	73,871	67,614	44,458	73,768	375,799
ON-BALANCE SHEET GAP	N/A	(40,554)	(64,387)	(19,877)	172,943	(48,125)	-
CUMULATIVE PROFIT SENSITIVITY GAP	N/A	(40,554)	(104,941)	(124,818)	48,125	-	-

BASEL II and III – PILLAR III Report 2023

Displaced commercial risk

Displaced commercial risk refers to the magnitude of risks that are transferred to the shareholders of Muzn in order to cushion the Investment Account Holders (IAH) from bearing some or all of the risks to which they are contractually exposed to in Mudaraba funding contracts. Muzn creates and manages both PER and Investment risk reserve to smoothen IAH returns. Further, Muzn also adjusts its Mudarib share in order to smoothen returns of IAH.

Qualitative Disclosure:

- The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:

- Profit Equalization Reserve (PER)

  PER comprises amount appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of a PSIA portion and a shareholders' portion;

- Investment Risk Reserve (IRR)

  IRR comprises amounts appropriated out of the income of IAH after deduction of the Mudarib share of income, to meet any future losses on the investments financed by the PSIA.

An analysis of distribution during the year to IAH by Muzn is as follows:

PARTICULARS	Amount RO'000
Total profits available for distribution	**14,845**
• Muzn 's share as fund provider	**4,736**
• Share of IAH	**10,321**
Profits for IAH before smoothening	**10,321**
Smoothening:	
• PER	(154)
• IRR	(70)
Profits paid out to IAH after smoothening	**10,097**

- During the year the Bank utilized OMR Nil (2022: Nil) from PER for the purpose of enhancing the returns to depositors.

- The Bank is taking all the Risk Weighted Assets funded by IAH for the purpose of arriving at Total Risk Weighted Assets and capital requirement is calculated accordingly.

Quantitative Disclosures

Historical Rate of Return of IAH

Historical Rate of Return of unrestricted Investment Accountholder	2023	2022	2021	2020	2019
	RO '000	RO '000	RO '000	RO '000	RO '000
Profits available for distribution	**14,845**	10,934	9,469	8,920	6,617
Profit Distributed	**10,097**	5,334	5,174	4,925	3,898
Funds Invested	**266,751**	179,971	157,445	148,918	140,476
Rate as %age of fund invested	**3.79%**	2.96%	3.29%	3.27%	2.77%

BASEL II and III – PILLAR III Report 2023

Five years comparison of historical profit rates for unrestricted IAH.

	2023	2022	2021	2020	2019
Savings Account (Mudarabah)	**0.54%**	0.66%	0.53%	0.52%	0.46%
Flexi Wakala	**0.10%**	0.10%	0.10%	0.10%	0.10%
Flexi Wakala - Elite	**2.25%**	2.25%	2.25%	2.25%	2.25%
Flexi Wakala - Premium	**1.75%**	1.75%	1.75%	1.75%	1.75%
Wakala- Upto 6 months	**0.25% - 1.75%**	0.25% - 1.75%	0.10% - 0.25%	0.10% - 0.25%	0.10% - 0.40%
Wakala - > 6months to 1 Year	**1.75% - 3.25%**	1.75% - 3.25%	0.40% - 0.75%	0.40% - 0.75%	0.40% - 1.75%
Wakala - > 1 Year to 3 Years	**3.25% - 3.75%**	2.75% - 3.75%	1.75% - 2.50%	1.75% - 2.50%	1.75% - 2.50%
Wakala - > 3 Years	**3.75% - 4.25%**	3.35% - 4.25%	3.00% - 3.50%	3.00% - 3.50%	2.50% - 3.50%
Government Flexi Wakala	**0.75%**	0.75%	0.75%	0.75%	0.75%

Contract Specific Risks

The Credit Risk Appetite document of Muzn has provided limits for the purpose of financing, it is defined within the purpose of financing are the various Shari'a compliant financing contracts that can be used. The risk weighting requirement for each of the Sharia compliant financing contracts, based on the risk profile of the customer as provided in the IBRF is taken into account for the purposes of computing the Capital Adequacy Ratio of Muzn.

Quantitative Disclosures

Credit risk weighted assets by type of financing contracts is as follows:

Financing Contracts	Risk Weighted Assets
	Amount '000
Murabaha receivables	10,722
Ijarah Muntahia Bittamleek	25,004
Diminishing Musharaka	129,591
Forward Ijara	138
Service Ijara	18
Wakala Bil Istithmar	51,342
Letter of Guarantee	3,286
Letter of Credit	610
Total RWA of Financing Contracts	**220,711**
Total RWA from Non-Financing Contracts	**37,474**
TOTAL RWA – BANKING BOOK	**258,185**

General Governance Disclosures

The CMA code of Corporate Governance for Public Listed Companies and the CBO guidelines as per IBRF Corporate Governance and Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Muzn complies with all their provisions.

BASEL II and III – PILLAR III Report 2023

The following disclosure summarizes the disclosures of related party:

Deposits and other accounts	2023	2022
Directors, Sharia Supervisors and shareholders	**149**	38
Financings		
Directors, Sharia Supervisors and shareholders	**36**	45

The statement of income includes the following amounts in relation to transactions with related parties:

Income from Islamic financing	2023	2022
Income from Islamic financing	**1**	2

Remuneration paid to Directors & Sharia Supervisors	2023	2022
Chairman		
• remuneration proposed	**8**	8
• sitting fees paid	**2**	2
• other expenses paid	**1**	-
Other Directors		
• remuneration proposed	**15**	15
• sitting fees paid	**11**	11
• other expenses paid	**1**	1
Management fee payable to conventional banking	**162**	120

Muzn maintains a formal procedure on handling of customer complaints. Complaints related to Muzn are dealt with by the conventional banking call center equipped with the required resources to respond to customer calls in a professional manner. The complaint management team of the Conventional Bank takes active part in resolution of customers' complaint and considers customers feedback on products and services. All complaints are logged and investigated by persons not directly related to the subject matter of the complaint.

Sharia Governance Disclosures

Sharia Supervisory Board (SSB)

Muzn's independent Shari'a Supervisory Board is an external Shari'a Committee comprising of independent and well renowned Shari'a Scholars who guide and ensure that the operations, services and products offered by Muzn comply with the principles of Shari'a.

In case SSB rules any earnings Sharia non-compliant, such income is diverted to a charity account and disbursed to charitable organization. Income generated from late payment charges (whereby client undertakes to donate to charity a certain amount in case of delay in installment payments) and whenever a transaction which is treated as Shari'a non-Compliant by Sharia Audit Unit and endorsed by SSB, the income from such Shari'a non-compliant account becomes part of charity Account.

The Internal Sharia reviewer performs functions based on the Shari'a guidelines provided by CBO in the IBRF, Sharia rulings and resolutions issued by SSB. Sharia audit includes continuous audit for transactions of all departments. Its observations and findings are reported in the Sharia audit report to SSB which is also conveyed and discussed with management, with documentation of management responses in addition to recommending action plan for each observation.

As per IBRF, Islamic banks are required to apply Accounting standards issued by AAOIFI and abide by the comprehensive IBRF regulatory framework and guidelines.

Muzn's Sharia Supervisory Board consists of following members namely:

Sheikh Dr. Muhammad Zubair Usmani - Chairman

- PhD in Islamic Finance, University of Karachi, Karachi, 2001.
- Ustad Ul Hadeeth & Fiqh Jamia Darul Uloom Karachi, 1989 to date.
- Member, Shariah Advisory forum (SAF), Central Bank of Pakistan ,2004 to date.
- Chairman Sharia Board, Habib Bank Limited – Islamic Banking Group, 2015-to date.
- Member Sharia Board, AAOIFI Bahrain Pakistan Wing, 2021 to date.
- Shariah Advisor, Adamjee Life Takaful, 2015 to date.
- Shariah Advisor, Askari Takaful, Pakistan, 2019 to date.
- Member Executive Committee, Center for Islamic Economics, Karachi, 2007 to date.

Sheikh Dr. Abdulrahman Abdullah Al-Saadi - Member

- PhD, Business administration, Islamic Finance, Imam Mohammad Bin Saud Islamic University, Saudi Arabia, 2012.
- Assistant Professor, Islamic Banking Department, University of Bahrain, since 2013.
- Shariah and Legal Advisor, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), since 2012.
- Member of sharia board of NBF bank, UAE, since 2020.
- Member of sharia board, JEQUITY PARTNERS, Bahrain.
- Member of Islamic Banking Shariah Practitioners Forum, United Arab Emirates, since 2019.
- Rapporteur, Shari'ah Board, AAOIFI, since 2012.
- Orator, Ministry of Islamic Affairs, Bahrain, since more than 10 years.

Sheikh Saleh Al Kharusi - Member

- MA in Islamic Jurisprudence from Sultan Qaboos University, Oman, 2011.
- Director of the Notary Public Office – Ministry of Justice.
- Part-time lecturer in Institute of Sharia Sciences.

HH Sayyid Dr. Adham Al Said - Member

- BSc in Economics from Sultan Qaboos University, Oman - 1999.
- MA in Economics from New York University, USA - 2002.
- PhD in Economics from University of Western Australia, Australia - 2011.
- Assistant Professor of Economics, Sultan Qaboos University.
- Partner, The Firm for Business and Economic Consulting.
- Chairman of Board of Trustees, Scientific College of Design.

There was a total of four SSB meetings held in 2022. Date of the meetings and attendance of each SSB Member is follows:

Name of the Board Member	Date of Meeting and attendance			
	21/03/2023	20/06/2023	31/10/2023	30/12/2023
Sheikh DR. Muhammad Zubair Usmani	√	√	√	√
Sheikh DR. Abdulrahman Al Saadi	√	√	√	√
Sheikh Saleh Nasser Al Kharusi	√	√	√	√
H.H Sayyid Dr. Adham Al Said	√	√	√	√

BASEL II and III – PILLAR III Report 2023

Remuneration for Sharia Supervisory Board Members in 2023:

Total Remuneration paid to the Four Scholars for the year 2023 was OMR 30,800. The breakup is as follows:

Name of the Board Member	Total Fees (RO)
Sheikh DR. Muhammad Zubair Usmani	9,625
Sheikh DR. Abdulrahman Al Saadi	7,700
Sheikh Saleh Nasser Al Kharusi	7,700
H.H Sayyid Dr. Adham Al Said	5,775

Sharia compliance key controls

Sharia compliance is ensured in day to day business of Muzn through the following key controls:

- All the products being offered by Muzn are approved by the SSB;
- All investments made by Muzn are approved by SSB;
- The Fatwa approving such products are available on the website of Muzn;
- The responsibility of payment of zakat is on individual shareholders and investment account holders;
- There has been no non-compliance with Sharia rules and regulations during the year;
- Muzn has in place a Sharia Compliance Unit (SCU) which facilitates the management in ensuring compliance with Sharia (as manifested by the guidelines and Fatawa issued by the SSB) and Islamic banking stipulations of the Central Bank on a day to day basis in all its business activities, operations and transactions. This is achieved through review and approval of the contracts, agreements, policies, procedures, products, process flows, transactions, reports (profit distribution calculations), etc;
- Templates of agreements used by Muzn are approved by SSB;
- Islamic banking knowledge and experience is considered to be a compulsory requirement for hiring of staff handling core.

Muzn functions; staff has been provided training throughout the year on Sharia matters;

Disclosure of the nature, size and number of violations of Sharia compliance during the year:

There is no violation to SSB's Sharia ruling and AAOIFI Sharia standard have been found during the year.

Disclosure of annual Zakah contributions of the Licensee, where relevant, according to constitution, general assembly or national requirements or as required by the respective SSB

SSB issues its Sharia compliance certificate where it identifies that Sharia compliance has been observed in the bank's transactions and contracts, and in case of any violation, the observation is listed in the report. In addition, and as per Management decision, SSB certificate also stipulates that Zakat calculation and payment is the responsibility of the shareholders.

Social service and customer education

To promote the cause of Islamic Banking, Muzn Islamic Banking actively takes part in educating the public and customers about various aspects of Islamic Finance. The Muzn team also took active part in various Islamic banking conferences and forums, engaging in healthy discussions regarding issues, developments and opportunities of Islamic banking and the ways in which the industry is helping the country in promoting financial inclusion, SME sector, trade and economic growth.

Muzn Islamic Banking as part of National Bank of Oman distributed food hampers to the poor and needy people in the holy month of Ramadan. A team of volunteers including the senior management team delivered several food hampers to low income families across the Muscat Governorate to inaugurate this initiative.

BASEL III – Transition Disclosure

Further to the Guidelines on composition of capital disclosure requirements (CP1 & CP2) issued by Central Bank of Oman, the following are the mandatory disclosures for the year ended 31 December 2023.

Basel III common disclosure template to be used during the transition of regulatory (RO '000)

Muzn Islamic Banking

BASEL II and III – PILLAR III Report 2023

	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	35,000
Retained earnings	8,648
Accumulated other comprehensive income (and other reserves)	7
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory adjustments	**43,655**
Common Equity Tier 1 capital: regulatory adjustments	
Deferred tax assets arising from temporary differences (net of related tax liability)	-
National specific regulatory adjustments of which: Shortfall in MCR of Islamic Banking window and foreign branches of the bank	-
Total regulatory adjustments to Common equity Tier 1	-
Common Equity Tier 1 capital (CET1)	**43,655**
Additional Tier 1 capital: instruments - NIL	
Additional Tier 1 capital: regulatory adjustments	
Total regulatory adjustments to Additional Tier 1 capital	-
Additional Tier 1 capital (AT1)	-
TIER 1 CAPITAL (T1 = CET1 + AT1)	**43,655**

Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	-
Directly issued capital instruments subject to phase out from Tier 2	-
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
of which: instruments issued by subsidiaries subject to phase out	-
Permissible ECL Allowance	1,938
Cumulative fair value (losses) or gains on available for sale instruments	-
Tier 2 capital before regulatory adjustments	**1,938**
Tier 2 capital: regulatory adjustments	
National specific regulatory adjustments	-
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
OF WHICH: Cumulative fair value gains or losses on available for sale instruments	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital (T2)	**1,938**
TOTAL CAPITAL (TC = T1 + T2)	**45,593**

BASEL II and III – PILLAR III Report 2023

BASEL III – transition disclosure (continued)

TOTAL RISK WEIGHTED ASSETS	271,741
Of which: Credit risk weighted assets	258,183
Of which: Market risk weighted assets	2,579
Of which: Operational risk weighted assets	10,979
CAPITAL RATIOS	
Common Equity Tier 1 (as a percentage of risk weighted assets)	16.06
Tier 1 (as a percentage of risk weighted assets)	16.06
Total capital (as a percentage of risk weighted assets)	16.78
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	-
of which: capital conservation buffer requirement	-
of which: bank specific countercyclical buffer requirement	-
of which: D-SIB/G-SIB buffer requirement	-
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	-
NATIONAL MINIMA (IF DIFFERENT FROM BASEL III)	
National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.000
National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.000
National total capital minimum ratio (if different from Basel 3 minimum)	11.000
TOTAL INVESTMENT ACCOUNT HOLDERS	
Amount of investment account holders funds	300,114
Profit equalization reserve	799
Investment risk reserve	332
TOTAL INVESTMENT ACCOUNT HOLDERS	**301,245**

Prepared under the guidelines on composition of capital disclosure requirements

Balance sheet as in published financial statements	RO'000s
	Balance sheet as in published financial statements
ASSETS	**31-Dec-23**
Cash and balances with Central Bank of Oman	21,585
Certificates of deposit	-
Due from banks	57,641
Financing to banks	-
Financing to Customers	266,751
Investments	26,109
Property and equipment	180
Deferred tax assets	-
Other assets	3,533
TOTAL ASSETS	**375,799**

BASEL II and III – PILLAR III Report 2023

BASEL III – transition disclosure (continued)

LIABILITIES	
Due to banks	49,407
Customer deposits	275,093
Euro medium term notes	-
Other liabilities	7,030
Subordinated bonds	-
TOTAL LIABILITIES	**331,530**
SHAREHOLDERS' EQUITY	
Assigned capital	35,000
Share premium	-
Legal reserve	-
General reserve	-
Retained earnings	8,648
Other reserves	605
Cumulative changes in fair value of investments	16
Subordinated debt reserve	-
Tier 1 perpetual bond	-
TOTAL SHAREHOLDERS' EQUITY	**44,269**
TOTAL LIABILITY AND SHAREHOLDERS' FUNDS	**375,799**

Balance sheet as in published financial statements expanded		31-Dec-23
	Balance sheet as in published financial statements	**Reference**
ASSETS	**RO'000s**	
Cash and balances with Central Bank of Oman	21,585	
Certificates of deposit	-	
Balance with banks and money at call and short notice	57,641	
Investments	26,109	
Financing Of which :		
Financing to Banks - Gross	-	
General Provisions considered for Tier 2	-	
NET FINANCING TO BANKS	-	
Financing to Customers - Gross	273,325	
ECL Stage 1	(409)	
ECL Stage 2	(4,311)	A1
ECL Stage 3	(1,854)	
NET FINANCING TO CUSTOMERS	266,751	
Fixed assets	180	
Other assets of which:	3,533	

BASEL II and III – PILLAR III Report 2023

BASEL III – Transition Disclosure (Continued)

Balance sheet as in published financial statements expanded		31-Dec-23
	Balance sheet as in published financial statements	Reference
Deferred tax assets	-	
Amount considered for CET1		
Current year allocation - not eligible	-	
TOTAL ASSETS	**375,799**	
Paid-up Capital	-	
Of which:		
Amount eligible for CET1	35,000	C1
Amount eligible for AT1	-	
Reverses and Surplus	8,648	
Of which: Amount eligible for CET1		
Retained earnings carried forward	5,984	C2
Profit for current year not eligible	2,665	
Impairment reserve	-	
General reserve	-	
Subordinated debt reserve	-	
Proposed Stock Dividend	-	
TOTAL AMOUNT ELIGIBLE FOR CET1	-	
Tier 1 perpetual bond	-	
Proposed Cash Dividend	-	
Cumulative changes in fair value of investments	16	
Amount eligible for Tier 2	-	
Other reserve	605	
TOTAL CAPITAL	**44,269**	
Deposits Of which:		
Deposits from banks	49,407	
Customer deposits	275,093	
Euro medium term notes	-	
Other deposits (Sub-debt)	-	
Other liabilities & provisions Of which:	7,030	
TOTAL	**375,799**	

Basel III common disclosure template to be used during the transition of regulatory adjustments (RO '000)		
	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
Common Equity Tier 1 capital: instruments and reserves		
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	35,000	C1
Retained earnings	8,648	C2
Accumulated other comprehensive income (and other reserves)	-	

BASEL II and III – PILLAR III Report 2023

BASEL III – Transition Disclosure (Continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments (RO '000)		
	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
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
Common Equity Tier 1 capital before regulatory adjustments	43,648	
Common Equity Tier 1 capital: regulatory adjustments		
Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Total regulatory adjustments to Common equity Tier 1	-	
Common Equity Tier 1 capital (CET1)	43,648	
Additional Tier 1 capital: instruments (TIER1 PERPETUAL BOND)	-	
Additional Tier 1 capital: regulatory adjustments - Nil		
TIER 1 CAPITAL (T1 = CET1 + AT1)	43,648	
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
Directly issued capital instruments subject to phase out from Tier 2	-	
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
of which: instruments issued by subsidiaries subject to phase out	-	
General provisions	1,938	A1
Cumulative fair value gains or losses on available for sale instruments	7	
TIER 2 CAPITAL BEFORE REGULATORY ADJUSTMENTS	1,945	
Tier 2 capital: regulatory adjustments	-	
National specific regulatory adjustments	-	
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-	
OF WHICH: Cumulative fair value gains or losses on available for sale instruments	-	
Total regulatory adjustments to Tier 2 capital	-	
Tier 2 capital (T2)	1,945	
TOTAL CAPITAL (TC = T1 + T2)	45,593	

Disclosure template for main features of all regulatory capital instruments

1. Common Equity

Common equity comprises of assigned capital amounting to RO 35,000,000 transferred from National Bank of Oman SAOG.

2. All other regulatory capital instruments – Nil

This report on Basel II & III disclosures set out from pages no 1 to 29 was authorized for issue on 30 January 2024.

Amal Suhail Bahwan
Chairperson

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Independent auditors' report

To the Shareholders of National Bank of Oman SAOG

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Islamic Window as at 31 December 2023, and results of its operations, changes in equity, its cash flows, and sources and use of 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 3b

CR No. 1358131
Tax Card No. 8063052

Continued from page 3a

Responsibilities of the Board of Directors for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Continued on page 3c

Continued from page 3b

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.

Kenneth Macfarlane
11 March 2024

KPMG LLC

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CR.No: 1358131

Statement of Financial Position

As at 31 December 2023

	Notes	2023 RO'000	2022 RO'000
ASSETS			
Cash and balances with Central Bank of Oman	5	**21,585**	7,910
Due from banks and financial institutions	6	**57,641**	11,185
Investments in Sukuk, shares and other securities	7	**26,109**	20,406
Murabaha receivables - net	8	**10,661**	5,181
Ijarah Muntahia Bittamleek - net	9	**48,883**	56,243
Diminishing Musharaka - net	10	**135,685**	118,034
Forward Ijarah – net	11	**345**	492
Service Ijarah	12	**18**	21
Wakala Bil Istithmar	13	**71,159**	-
Property and equipment	14	**180**	188
Other assets	15	**3,533**	2,848
TOTAL ASSETS		**375,799**	222,508
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Current accounts		**22,469**	11,540
Due to banks and financial institutions	16	**786**	83
Other liabilities	17	**7,030**	3,559
TOTAL LIABILITIES		**30,285**	15,182
EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS	19	**301,245**	180,760
OWNERS' EQUITY			
Assigned capital	20	**35,000**	20,000
Impairment reserve		**605**	605
Retained earnings		**8,648**	5,984
Investment fair value reserve		**16**	(23)
TOTAL OWNERS' EQUITY		**44,269**	26,566
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**375,799**	222,508

The financial statements were approved and authorised for issue on 30 January 2024 by the Board of Directors.

Director **Chairperson** **Chief Executive Officer**

The notes 1 to 29 form part of these financial statements.

Statement of Profit or Loss

For the year ended 31 December 2023

	Notes	2023 RO '000	2022 RO '000
INCOME			
Income from Islamic financing	21	**12,443**	9,179
Inter-bank Wakala		**2,450**	391
Investment income		**1,058**	986
Income from jointly financed investments and receivables		**15,951**	10,556
Return on unrestricted investment accountholders before the window's share as Mudharib	22	**(10,097)**	(5,334)
Profit equalisation reserve		**(154)**	(97)
Investment risk reserve		**(70)**	(41)
Return on unrestricted investment accountholders		**(10,321)**	(5,472)
Muzn's share in income from investment as Mudharib and Rabul Maal		**5,630**	5,220
Other operating income	23	**931**	1,100
TOTAL OPERATING INCOME		**6,561**	6,184
General and administrative expenses	24	**(2,028)**	(1,839)
Depreciation	14	**(179)**	(189)
TOTAL OPERATING EXPENSES		**(2,207)**	(2,028)
PROFIT BEFORE IMPAIRMENT LOSSES		**4,354**	4,156
Impairment for credit losses - net	18	**(1,690)**	(1,519)
PROFIT FOR THE YEAR		**2,664**	2,637

The notes 1 to 29 form part of these financial statements.

Statement of Changes in Equity

As at 31 December 2023

	Share capital RO'000	Impairment reserve RO'000	Investment fair value reserve	Retained Earnings RO'000	Total RO'000
Balance at 1 January 2023	**20,000**	**605**	**(23)**	**5,984**	**26,566**
Profit for the year	**-**	**-**	**-**	**2,664**	**2,664**
Additional capital	**15,000**	**-**	**-**	**-**	**15,000**
Investment fair value reserve (net of tax)	**-**	**-**	**39**	**-**	**39**
BALANCE AT 31 DECEMBER 2023	**35,000**	**605**	**16**	**8,648**	**44,269**
Balance at 1 January 2022	20,000	605	-	3,347	23,952
Profit for the year	-	-	-	2,637	2,637
Additional Capital					
Investment fair value reserve (net of tax)	-	-	(23)	-	(23)
BALANCE AT 31 DECEMBER 2022	20,000	605	(23)	5,984	26,566

The notes 1 to 29 form part of these financial statements.

Muzn Islamic Banking

Statement of Cash Flows

For the year ended 31 December 2023

	2023	2022
	RO '000	RO '000
OPERATING ACTIVITIES		
Profit for the year	**2,664**	2,637
Adjustments for:		
Depreciation	**179**	189
Provisions for credit loss	**1,690**	1,519
Net Movement - Investment amortization	**39**	-
Profit on investment at FVPL & OCI	**(31)**	(35)
Profit equalization reserve	**154**	97
Investment risk reserve	**70**	41
Operating cash flows before changes in operating assets and liabilities	**4,765**	4,448
Changes in:		
Murabaha receivables	**(5,504)**	(1,281)
Ijarah Muntahia Bittamleek - net	**7,227**	7,411
Diminishing Musharaka assets	**(19,003)**	(30,392)
Forward Ijarah assets	**148**	223
Service Ijarah assets	**3**	(6)
Wakala Finance assets	**(71,342)**	-
Due to Banks	**31,615**	13,908
Other assets	**(685)**	(530)
Current accounts	**10,929**	970
Other liabilities	**3,471**	(8,116)
Net cash flows used in operating activities	**(38,376)**	(13,365)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(171)**	(43)
Purchase of investments	**(5,654)**	(2,483)
Net cash used in investing activities	**(5,825)**	(2,526)
FINANCING ACTIVITIES		
Equity of unrestricted investment accountholders	**89,349**	28,621
Additional share capital	**15,000**	-
NET CASH FROM FINANCING ACTIVITIES	**104,349**	28,621
Increase in cash and cash equivalents	**60,148**	12,730
Cash and cash equivalents at the beginning of the year	**19,095**	6,365
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**79,243**	19,095
Cash and balances with Central Banks	**21,585**	7,910
Due from banks maturing within three months	**57,658**	11,185
	79,243	19,095

The notes 1 to 29 form part of these financial statements.

Statement of Sources and Uses of Charity Fund

For the year ended 31 December 2023

	2023	2022
	RO '000	RO '000
Balance as at 1 January		
Non-Islamic income for the year	**7,729**	32,555
TOTAL SOURCE	**7,729**	32,555
USE OF CHARITY FUND:		
Oman Association for Disabled	**-**	(10,852)
Association for Welfare of Children Disabilities	**-**	(10,852)
Omani Association for Down syndrome	**-**	(10,851)
UNDISTRIBUTED CHARITY FUND AS AT 31 DECEMBER	**7,729**	0

The notes 1 to 29 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2023

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Muzn Islamic Banking – Window of National Bank of Oman SAOG ('Muzn') was registered in the Sultanate of Oman as a window of National Bank of Oman SAOG. Muzn's principle place of business is in Muscat, Sultanate of Oman. Muzn's operations commenced on 17 January 2013 and it currently operates through six branches in the Sultanate under the license issued by the Central Bank of Oman on 15 January 2013.

The principle activities of Muzn are taking demand, saving and deposit accounts, providing Murabaha finance, Ijarah financing, Musharaka financing and other Sharia 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. Muzn's activities are regulated by the Central Bank of Oman ('CBO') and supervised by Sharia Supervisory Board ('SSB') comprising of five members.

Muzn's registered address is PO Box 751 and PC 112, Muscat, Sultanate of Oman.

Muzn employed 59 employees as at 31 December 2023 (2022: 49).

The window is not a separate legal entity, the separate financial statements of Muzn has 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 Central Bank of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO, the financial statements have been prepared in accordance with Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of Muzn and the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), as adopted by CBO and other applicable regulations of CBO. In accordance with requirements of AAOIFI, matters that are not covered by FAS, Muzn uses guidance from the relevant International Financial Reporting Standards ("IFRS") in so far as those requirements do not contravene with Shari'a principles and rules and the AAOIFI "Conceptual Framework for Financial Reporting by Islamic Financial Institutions" (the conceptual framework).

Statement of restricted investment accountholders and statement of Qard fund and Zakat are not presented as these are not applicable to Muzn's operations.

2.2 Basis of measurement

The financial statements are prepared under the historical cost basis except for the following:

- financial instruments classified as trading and at fair value through profit or loss (FVTPL);
- financial instruments at fair value through other comprehensive income;
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged.

2.3 Functional and presentation currency

The financial statements have been presented in Rial Omani (RO) which is the functional currency of Muzn. Except as otherwise indicated, financial information presented has been rounded off to the nearest thousand Rial Omani (RO).

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with AAOIFI 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 ongoing basis. Revisions to accounting estimates are recognized 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.

Muzn Islamic Banking

3 MATERIAL ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Muzn'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 income.

3.2 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman and, amounts due from/to other banks and financial institutions, interbank Wakala with original maturity of three months.

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 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. Further, this should also be as per the Sharia principles and guidelines.

Income and expenses are presented on a net basis only for permitted transaction.

3.4 Murabaha receivables

Murabaha receivables are stated net of deferred profits and provisions for impairment. Muzn considers the promise made in the deferred sales to the purchase orderer as obligatory. Murabaha receivables are sales on deferred payment terms. Muzn arranges a Murabaha transaction by buying an asset and then selling this asset to Murabaha (beneficiary) after computing a margin profit over cost. The sales price (cost plus profit margin) is repaid in instalments by the Murabaha over the agreed period. Promise made in the Murabaha to the purchase orderer is binding upon the customer.

3.5 Ijarah Muntahia Bittamleek - net

Assets acquired for leasing (Ijarah) are stated at cost, less accumulated depreciation. Leased assets are depreciated over the life of the lease in systematic manner. Muzn assesses at each reporting date whether there is objective evidence that these assets are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the statement of income.

3.6 Diminishing Musharaka

Musharaka contract represents a partnership between Muzn and a customer whereby each party contributes to the capital in equal or varying proportions to develop a new asset or share an existing one, and whereby each of the party becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses.

These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any. In Diminishing Musharaka based transactions, Muzn enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house or land) with its customers and enters into periodic profit payment agreement on Ijarah basis for the utilisation of Muzn's Musharaka share by the customer.

Over the tenor, one partner's investment in the partnership declines on account of the other partner's increase in the partnership investment through repayment of the former partner's share.

3.7 Service Ijarah

Deferred Contracts under Service Ijarah are stated net of deferred profits and provisions for impairment. Muzn considers the payments to be made under Deferred Service Ijarah Contracts as obligatory.

3.8 Wakala Bil Istithmar

An agreement between two parties whereby one party is a fund owner (the "Muwakkil") who provides a certain amount of money (the "Wakala capital") to an agent (the "Wakeel"), who invests the Wakala capital in a Shari'a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. In financing contracts, Muzn is Muwakkil and the corresponding party is agent of the bank.

3 FINANCIAL RISK MANAGEMENT (continued)

3.9 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, by equal instalments over their estimated economic useful lives from the date the asset is brought into use, as follows:

The rates of depreciation are based upon the following estimated useful lives:

Buildings on freehold land	25 to 40 years
Leasehold improvements	Over the lease terms 3 to 10 years
Motor vehicles	4 years
Furniture	3 to 10 years
Equipment	5 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position 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 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 statement of income as an expense when incurred.

3.10 Unrestricted investment accountholders

Equity of investment accountholders ("IAH") are funds held by the Window in one common pool of unrestricted investment account, which is invested by the Window ('Mudarib') in its own discretion. These include funds raised under Mudaraba contracts and Wakala contracts under multi-level investment arrangements. The funds received under the Wakala arrangement is invested in the Mudaraba investment pool and is considered as investment made by an investment account holder.

Under both the Mudaraba and a comingled Wakala arrangement, the investment accountholder authorizes the Window to invest the accountholder's funds in a manner which the Window deems appropriate without laying down any restrictions as to the purpose the funds should be invested.

The Window charges management fee (Mudarib fees) to investment accountholders. The allocation of income is determined by the management of the Window at a pre-agreed ratio with IAH. Administrative expenses incurred in connection with the management of the fund are borne directly by the Window and are not charged to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

The basis applied by the Window in arriving at the equity of investment accountholder's share of income is total investment income less shareholders' income. In case of Wakala contracts, the Window does not act as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

3.11 Sukuk, shares and other securities

Equity-type instruments at fair value through profit and loss

Investments at fair value through statement of income include investments held for trading and investments designated upon initial recognition as investments at fair value through statement of income.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'. These investments are subsequently measured at fair value. The unrealized gains and losses arising from the remeasurement to fair value are included in the statement of income.

3 FINANCIAL RISK MANAGEMENT (continued)

Equity-type instruments at 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.

Debt-type instruments at fair value through statement of income

These include debt-type investments held for trading purposes and those investments that are designated under this category on initial recognition. Subsequent to acquisition, investments designated at fair value through statement of income are re-measured at fair value with recognized gains or losses recognized in statement of income.

Debt-type instruments at amortized cost

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortized cost. Such investments are carried at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognized in the statement of income, when the investment is de-recognized or impaired.

3.12 Investment risk reserve

Investment risk reserves (IRR) are amounts appropriated out of the equity of investment account holders, after allocating the Mudarib share, in order to cater against future losses for equity of investment account holder.

3.13 Profit equalisation reserve

Profit equalization reserves (PER) are amounts appropriated out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return on investments for equity of investment account holder.

3.14 Provisions

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

3.15 Earnings prohibited by shari'a

Muzn is committed to avoid recognising any income generated from Shari'ah non-compliant sources. Accordingly, all Shari'ah non-compliant income is credited to a charity fund where Muzn disburses these funds according to the Sharia Supervisory Board's supervision and instructions.

3.16 Zakah

The responsibility of payment of zakah is on individual shareholders and investment account holders.

3.17 Joint and self-financed

Financing and receivables that are jointly owned by Muzn and the unrestricted investment accounts holders will be classified under the caption "jointly-financed" in the financial statements. Financing and receivables that are financed solely by Muzn will be classified under "self-financed". As of the reporting date, all the financing and receivables are jointly financed by Muzn and the unrestricted account holders.

3.18 Funds for Muzn

Muzn functions with funds specifically available for its Islamic banking activities and there is no commingling of funds with conventional banking business.

3 FINANCIAL RISK MANAGEMENT (continued)

3.19 Revenue recognition

3.19.1 Murabaha profit

Murabaha profit is recognized when the income is quantifiable and contractually determined at the commencement of the contract, income will be recognised on a time-proportionate basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually determinable, it will be recognized when realised. Income related to non performing accounts will be excluded from the statement of income.

3.19.2 Diminishing Musharaka

Income on Musharaka is recognized when the right to receive payment is established or when distribution is made, net of suspended profit.

3.19.3 Ijarah Muntahia Bittamleek

Ijarah income is recognised on a time proportionate basis over the Ijarah term and is stated net of depreciation. Income related to non-performing Ijarah accounts that are non-performing is excluded from the statement of income.

3.19.4 Service Ijarah

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually determinable, it will be recognized when realised. Income related to non performing accounts will be excluded from the statement of income.

3.19.5 Wakala Bil Istithmar

Wakala profit is usually reliably estimated and is internally accounted for on time-apportioned basis over the Wakala tenure based on the Wakala capital outstanding. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala agreement, otherwise the loss would be borne by the Muwakkil.

3.19.6 Dividend income

Dividend income will be recognised when the Window's right to receive payment is established.

3.19.7 Fee and Commission Income

Fee and commission income is recognized upon rendering of services.

3.19.8 Sukuk & investment income

Income on Sukuk is recognised on a time-proportionate basis based on underlying rate of return of the respective type of Sukuk.

Income from investments is recognised when earned.

3.19.9 Muzn's Share as a Mudarib

Muzn's share as a Mudarib for managing unrestricted investment accounts will be accrued based on the terms and conditions of the related Mudaraba agreements.

3.19.10 Income allocation

Income from jointly financed activities will be allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year.

3.20 Taxation

Muzn is not a separate legal entity and therefore is not taxable on a stand-alone basis as per the prevailing tax laws.

National Bank of Oman SAOG is taxable on a consolidated basis i.e. including Muzn's financial results, accounted for as per the International Financial Reporting Standards. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

3.21 Staff terminal benefits

Contribution to a defined contribution retirement plan for Omani employees, in accordance with the Oman Social Insurance Scheme, is recognised as an expense in statement of income when incurred.

The Window's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future

3 FINANCIAL RISK MANAGEMENT (continued)

benefit that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value.

Employee entitlements to annual leave and leave passage are recognized 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.

Voluntary end of service benefits are recognised as an expense when the Window is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if it is probable that the offer made by the Window will be accepted, and the number of acceptances can be estimated reliably.

3.22 Segment reporting

An operating segment is a component of Muzn that engages in business activities from which it may earn revenues and incur expenses including revenue and expenses that relate to transactions with any of the Muzn's other components whose operating results are reviewed regularly by the management to make decisions about the resources allocated to each segment and asses its performance and for which discrete financial information is available. Muzn's primary format for reporting segmental information is business segment, based upon management internal reporting structure. Muzn's main business segments comprise of retail, corporate and treasury operations.

3.23 Sharia supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Sharia Supervisory Board of Muzn, which meets four times a year and consists of three prominent Sharia scholars as voting members and two non-voting members who are expert in the field. The SSB members appointed for a period of three years are:

- Sheikh Dr. Muhammad Zubair Usmani - Chairman
- Sheikh Dr. Abdulrahman Abdullah Al-Saadi - Member
- H.H. Sh. Dr. Adham Al Said - Member
- Sh. Saleh Al Kharus - Member

3.24 Financial Instruments

a) Classification of financial instruments

Financial assets consist of Cash and balances with Central Bank of Oman, due from banks and financial institutions, investments in Sukuk, shares and other securities, equity investments, Murabaha receivables, Ijarah, Diminishing Musharaka, Forward Ijarah, Service Ijarah, Wakala bil Istithmar and other receivables.

Financial liabilities contracts consist of placement from financial institutions, placements from customers, customers' current accounts and other payables. All financial assets and financial liabilities are carried at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

b) Measurement of financial instruments

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus the capital repayments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through the use of an allowance account) for impairment or un-collectability. The calculation of the effective profit rate includes all fees paid or received that are an integral part of the effective profit rate.

c) Trade and settlement date accounting

The Window recognises financing, investments, deposits and equity of investment accountholders on the date on which they are originated. Purchases and sale of all other financial assets and liabilities are recognised on the trade date, i.e. the date that the Window contracts to purchase or sell the asset or liability.

3 FINANCIAL RISK MANAGEMENT (continued)

d) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Window has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Window could be required to pay.

Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

e) Impairment

Overview of ECL principles

The Window has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12-month ECL).

The 12-month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Window has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Window groups its financing exposure into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1: Twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the LTECL associated with the probability of default events occurring within next twelve months is recognised.

Stage 2: LTECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, LTCEL is recognised. LTECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Window and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: LTECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract.

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective profit rate (EPR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Window has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

3 FINANCIAL RISK MANAGEMENT (continued)

3.24 Financial instruments (continued)

The calculation of ECLs

The Window calculates ECLs based on a two probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EPR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

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, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.

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 window would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The Window has applied a LGD of 0% on Government Sukuk issued by Government of Oman which are classified as investments under amortised cost.

Credit-impaired financial assets

At each reporting date, the Window assesses whether financial assets carried at amortised cost 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. Evidence that a financial asset is credit-impaired includes the following observable data:

a. significant financial difficulty of the borrower or issuer;
b. a breach of contract such as a default or past due event;
c. the restructuring of a financing or advance by the Window on the terms that the Window would not consider otherwise;
d. it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
e. the disappearance of an active market for a security because of financial difficulties.

A financing that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, the financing exposure that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Window considers the following factors.

a. The market's assessment of creditworthiness as reflected in the Sukuk yields.
b. The rating agencies' assessments of creditworthiness.
c. The country's ability to access the capital markets for new debt issuance.
d. The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
e. The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Write-offs

Financial assets are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Window determines that the customer does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Window's procedures for recovery of amounts due.

3 FINANCIAL RISK MANAGEMENT (continued)

3.24 Financial instruments (continued)

Presentation of allowance for credit losses in the statement of financial position

Allowance for credit losses are 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 assets;
- Financing commitments and financial guarantee contracts: generally as a provision under other liabilities; and
- Where a financial contract includes both a drawn and undrawn component, and the Window has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, the Window presents allowance for credit losses for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Allowance for credit losses for the undrawn component is presented as a provision in other liabilities.

Inputs, assumptions and techniques used for ECL calculation

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Window compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Window's existing risk management processes.

The Window's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on eleven factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2. The Window will consider a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

a. The remaining Lifetime PD at the reporting date has increased as result of downgrading of internal rating by two notches;
b. Inadequate or unreliable financial and other information such as unavailability of audited financial statement.
c. Non-cooperation by the counterparty in matter pertaining to documentation.
d. Counterparty is the subject of litigation by third parties that may have a significant impact on his financial position.
e. Frequent changes in senior management.
f. Intra-group transfer of funds without underlying transactions.
g. Deferment/delay in the date for commencement of commercial operations by more than one year.
h. Modification of terms resulting in concessions granted to counterparty including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, Window is guided by the extant instructions of CBO in regard to treating an account as restructured.
i. A fall of 25 percent or more in the turnover or in the EBIT as compared to previous year.
j. Erosion in net-worth by more than 20 percent as compared to the previous year and coupled with an increase in leverage.
k. A fall in the debt service ratio.

FAS 30 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of ECL 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 judgment.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables), that are closely correlated with credit losses in the relevant portfolio.

3 MATERIAL ACCOUNTING POLICIES (continued)

3.24 Financial instruments (continued)

The window's base case scenario is based on macroeconomic forecasts using historical information from external sources including impact of portfolio and industry related information. Where worse-case scenario is developed taking the historical information of defaults and is regressed to arrive at forward looking results. Scenarios are probability-weighted according to the window best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on an annual basis (if required).

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. FAS 30 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. The Window considers any exposure greater than 90 days past due as a default account.

Expected life

When measuring ECL, the Window must consider the maximum contractual period over which the Window is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Window is exposed to credit risk and where the credit losses would not be mitigated by management actions.

3.25 Right-of-use asset

The Window recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use asset is measured at cost, less any accumulated amortisation and impairment losses, and adjustment for any effect of Ijarah modification or reassessment. The cost of right-of-use assets represents the fair value of total consideration paid/ payable and includes initial direct costs and any dismantling or decommissioning costs. The Window amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of use assets which coincides with the end of the Ijarah term using a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. Right-of-use asset is also subject to impairment in line with FAS 30 requirements. The carrying value of right-of-use asset is recognised under "Property and equipment " in the statement of financial position.

3.26 Ijarah liability

At the commencement date of the lease (i.e., the date the underlying asset is available for use), the Window recognises Ijarah liability measured at the fair value of total rentals payable for Ijarah term. After the commencement.

date, the amount of Ijarah liability is increased to reflect return on the Ijarah liability – by way of amortisation of deferred Ijarah cost and reduced to reflect the Ijarah rentals made. In addition, the carrying amount of Ijarah liability is remeasured if there is a modification, a change in the Ijarah term or change in the in-substance fixed lease payments. The carrying value of Ijarah liability is recognised under "Other liabilities" in the statement of financial position.

3.27 Due to banks

Due to banks and financial institutions comprise of payables under Wakala contracts. These are recognised at fair value of consideration received less amounts settled, if any. Profits on these accounts are paid as per the respective agreement. Under these contracts, the bank acts as agent and corresponding bank is Muwakkil.

3.28 Placements with financial institutions

Placements with financial institutions comprise of short-term treasury contracts with financial institutions in the form of Wakala investments. These placements are stated at amortised cost net of deferred profits and allowance for credit losses, if any.

3.29 Current accounts

Customers' current accounts balances are in non-investment accounts and are recognised when received by the Window. The transaction is measured at the cash equivalent amount received by the Window at the time of contracting. At the end of the accounting year, the accounts are measured at their book value, which represents the settlement value to the customers.

Muzn Islamic Banking

3 MATERIAL ACCOUNTING POLICIES (continued)

3.30 Fair value

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

i. 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.
ii. 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.
iii. 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.

3.31 De-recognition of financial assets and liabilities

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

i. the right to receive cash flows from the asset has expired;
ii. the Window has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3.32 New standards, amendments and interpretations

3.32.1 New standards, amendments and interpretations issued but not yet effective

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

Muzn 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

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 Muzn's financial statements.

3 MATERIAL ACCOUNTING POLICIES (continued)

3.31 De-recognition of financial assets and liabilities (continued)

FAS 1 General Presentation and Disclosures in the Financial Statements (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 Muzn's financial statements.

FAS 45 Quasi-Equity (Including Investment Accounts)

AAOIFI has issued FAS 45 Quasi-Equity (Including Investment Account) in 2023. The objective of this standard is to establish the principles of financial reporting related to instruments classified as quasi-equity, such as investment accounts and similar instruments invested with the Islamic financial institutions. This standard applies to all instruments that meet the definition of quasi-equity held with an institution in line with the conceptual framework. The standard will be effective from the financial periods beginning on or after 1 January 2026 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Muzn's financial statements.

FAS 46 Off-Balance-Sheet Assets Under Management

AAOIFI has issued FAS 46 Off-Balance-Sheet Assets under Management in 2023. The objective of this standard is to establish the principles of financial reporting related to off-balance-sheet assets under management in line with the "AAOIFI Conceptual Framework for Financial Reporting". This standard applies to Islamic financial institutions preparing financial statements in line with the requirements of AAOIFI Financial Accounting Standards with regard to the assets managed in a fiduciary capacity without establishing control except for the participants' Takaful fund / participants' investment fund of a Takaful institution; and an investment fund managed by an institution, being a separate legal entity. The standard will be effective from the financial periods beginning on or after 1 January 2026 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Muzn'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 Muzn's financial statements.

4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Financial Instruments

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements pertain to the following:

Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation.

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

4.1 Financial Instruments (Continued)

Inputs, assumptions and techniques used for ECL calculation.

The following have the most significant impact and require a high level of judgment, as considered by the window while determining the impact assessment, are:

- Assessment of significant Increase in credit risk
- Macro-economic factors, forward looking information and multiple scenarios
- Definition of default
- Expected life

The Window's ECL calculations are outputs of complex models with number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Window's internal credit grading model.
- The Window's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Losses (LTECL) basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD).
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN ("CBO")

	2023	2022
	RO'000	RO'000
Cash in hand	892	927
Balances with Central Bank of Oman	20,693	6,983
	21,585	7,910

6 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2023	2022
	RO'000	RO'000
Due from foreign banks	39,158	10,906
Due from local banks	18,500	-
Due from head office	-	279
	57,658	11,185
Less: Allowances for credit losses	(17)	-
	57,641	11,185

7 INVESTMENT IN SUKUK, SHARES & OTHER SECURITIES - NET

	2023	2022
	RO'000	RO'000
Investments measured at Fair value through profit and loss (FVTPL)		
Quoted investments-Oman	**1,077**	1,008
Total FVTPL equity investments	**1,077**	1,008
Investments measured at Fair value through equity		
Quoted investments- local	**1,565**	-
Quoted investments- foreign	**1,185**	1,182
Total investments measured through equity	**2,750**	1,182
Investments in Sukuk, shares and other securities		
Government sukuk	**22,292**	17,281
Manufacturing and Banking sector sukuk	**-**	963
Less: Allowance for credit losses (refer 7.1)	**(10)**	(28)
Total financial assets at amortised cost - net	**22,282**	18,216
	26,109	20,406

7 INVESTMENT IN SUKUK, SHARES & OTHER SECURITIES - NET (continued)

7.1 Movement in allowances for the credit losses is set out below:

	2023	2022
	RO'000	RO'000
Balance at 1 January	**28**	40
Released during the year	**(18)**	(12)
Balance at 31 December	**10**	28

8 MURABAHA RECEIVABLES - NET

	2023	2022
	RO'000	RO'000
Gross Murabaha receivables	**11,652**	5,839
Less: Deferred profit (refer note 8.1)	**(930)**	(620)
	10,722	5,219
Less: Provision movement	**(61)**	(38)
	10,661	5,181

The Murabaha receivables pertain to finance provided to retail and corporate customers. The credit quality of the Murabaha receivables that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

8.1 Deferred Profit Movement

	2023	2022
	RO'000	RO'000
Deferred profit at the beginning of the period	**620**	449
Murabaha sales revenue during the period	**8,070**	3,244
Murabaha cost of sales	**(7,760)**	(3,073)
Deferred profit at the end of the period	**930**	620

9 IJARAH MUNTAHIA BITTAMLEEK - NET

	2023	2022
	RO'000	RO'000
Gross book value	**114,006**	117,132
Accumulated depreciation	**(64,088)**	(60,084)
Net book value at 31 December	**49,918**	57,048
Less: Allowances for credit losses	**(1,035)**	(805)
	48,883	56,243

The Ijarah pertains to finance provided to retail and corporate customers. The credit quality of the Ijarah that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

10 DIMINISHING MUSHARAKA - NET

	2023	2022
	RO'000	RO'000
Diminishing Musharaka receivables	**140,973**	121,970
Less: Allowances for credit losses	**(5,288)**	(3,936)
	135,685	118,034

Diminishing Musharaka pertains to finance provided to retail and corporate customers. The credit quality of the Diminishing Musharaka that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

11 FORWARD IJARAH - NET

	2023	2022
	RO'000	RO'000
Forward Ijarah receivables	**352**	498
Less: Allowances for credit losses	**(7)**	(6)
	345	492

Forward Ijarah pertains to finance provided to retail and corporate customers. The credit quality of the Forward Ijarah that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

12 SERVICE IJARAH - NET

	2023	2022
	RO'000	RO'000
Gross deferred Service Ijarah	20	24
Less: Unearned income	(2)	(3)
	18	21
Less: Provision movement	-	-
	18	21

Service Ijarah pertains to finance provided to retail customers. The credit quality of the Service Ijarah that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

13 WAKALA BIL ISTITHMAR - NET

Wakala Bil Istithmar	71,342	-
Less: Allowances for credit losses	(183)	-
	71,159	-

Wakala Bil Istithmar pertains to finance provided to retail and corporate customers. The credit quality of the Wakala Bil Istithmar that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

14 PROPERTY AND EQUIPMENT

	Motor vehicles, furniture and equipment	Leasehold improvements	Right-of-use Asset	Total
	RO'000	RO'000	RO'000	RO'000
COST				
1 January 2023	1,293	564	307	2,164
Additions	83	22	66	171
Disposals	(1)	-	(31)	(32)
31 December 2023	1,375	586	342	2,303
ACCUMULATED DEPRECIATION				
1 January 2023	1,249	526	201	1,976
Charge for the year	41	23	115	179
Disposals	(1)	-	(31)	(32)
31 December 2023	1,289	549	285	2,123
NET BOOK VALUE AT 31 DECEMBER 2023	86	37	57	180

	Motor vehicles, furniture and equipment	Leasehold improvements	Right-of-use Asset	Total
	RO'000	RO'000	RO'000	RO'000
COST				
1 January 2022	1,317	564	360	2,241
Additions	2	-	41	43
Disposals	(26)	-	(94)	(120)
31 December 2022	1,293	564	307	2,164
ACCUMULATED DEPRECIATION				
1 January 2022	1,212	505	190	1,907
Charge for the year	63	21	105	189
Disposals	(26)	-	(94)	(120)
31 December 2022	1,249	526	201	1,976
NET BOOK VALUE AT 31 DECEMBER 2022	44	38	106	188

15 OTHER ASSETS

	2023	2022
	RO'000	RO'000
Profit receivable	2,872	2,420
Miscellaneous assets	661	428
	3,533	2,848

16 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2023	2022
	RO'000	RO'000
Due to Head office	786	83

17 OTHER LIABILITIES

	2023	2022
	RO'000	RO'000
Profits payable	5,837	2,329
Sundry creditors	1,193	1,186
Lease liabilities	-	44
	7,030	3,559

Lease liabilities movement

Balance at 1 January	44	107
Additions during the year	66	41
Finance charges on leases	1	4
Lease payments	(111)	(108)
Balance at 31 December	-	44

18 MOVEMENT IN EXPECTED CREDIT LOSSES

	2023	2022
	RO'000	RO'000
At 1 January	**4,818**	3,067
Provided during the year	**1,690**	1,519
Contractual profit reserved	**98**	232
At 31 December	**6,606**	4,818

19 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

	2023	2022
	RO'000	RO'000
Mudaraba savings account	**8,379**	8,604
Wakala from financial institutions	**48,621**	17,709
Wakala from customers	**243,114**	153,540
Profit equalization reserve	**799**	645
Investment risk reserve	**332**	262
Total unrestricted investment account holders	**301,245**	180,760

There are no restricted investments as of 31 December 2023 (2022: Nil).

The Window utilizes the funds from equity of unrestricted investment account holders to finance assets. Asset in which funds are invested are as below:

	2023	2022
	RO'000	RO'000
Murabaha receivables	**12,040**	8,604
Ijarah Muntahia Bittamleek - net	**55,204**	17,709
Diminishing Musharaka	**153,230**	153,540
Forward Ijarah	**390**	645
Service Ijarah	**20**	262
Wakala Bil Istithmar	**80,361**	-
TOTAL	**301,245**	180,760

Equity of investment account holders' fund is commingled with Window's and Wakala fund to form one general Mudaraba pool. This pooled fund is used to fund and invest in banking assets generating income, however no priority is granted to any party for the purpose of investments and distribution of profits.

The Window does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. The profits earned on pool of assets funded from IAH and owners' equity are allocated between the owners' equity and IAH.

As per the policy of the Window, minimum of 40 % of return on assets earned is distributed to investment accountholders and 60 % is retained by the Window as Mudarib share. The Window did not charge any administration expenses to investment accounts.

The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year was 3.76% (2022: 3.11%).

Basis of distribution of the profit between owners' equity and unrestricted investment accountholders.

The investment profits are distributed between owners' equity and unrestricted investment accountholders for the year ended 31 December 2023 and year ended December 2022 as follows:

19 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS (continued)

	2023	2022
Unrestricted investment accountholders share	**40%**	40%
Mudarib share	**60%**	60%

a. The investment risk reserve at 0.5 percent is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

b. The profit equalisation reserve at 1 percent is the amount Muzn appropriates in excess of the profit to be distributed to unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owners' equity and unrestricted investment accountholders.

20 ASSIGNED CAPITAL

The assigned capital consists of RO 35,000,000 transferred from National Bank of Oman SAOG (31 December 2022: RO 20,000,000). During the year, MUZN received additional capital of RO 15,000,000 from NBO.

21 INCOME FROM FINANCING

	2023	2022
	RO'000	RO'000
Profit from Murabaha receivables	**377**	220
Profit from Ijarah Muntahia Bittamleek	**2,758**	3,039
Profit from Diminishing Musharaka	**7,545**	5,920
Profit from Wakala Bil Istithmar	**1,763**	-
	12,443	9,179

22 RETURN ON UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

	2023	2022
	RO'000	RO'000
Mudarabha savings account	**42**	50
Wakala	**6,989**	3,675
Flex Wakala	**1,235**	1,447
Inter-bank Wakala	**1,831**	162
TOTAL	**10,097**	5,334

23 OTHER OPERATING INCOME

	2023	2022
	RO'000	RO'000
Fee and commission income	**668**	952
Net gains from foreign exchange dealings	**168**	90
Miscellaneous income	**95**	58
	931	1,100

24 GENERAL AND ADMINISTRATIVE EXPENSES

	2023	2022
	RO'000	RO'000
Salaries and allowances	**1,357**	1,166
Operating and Administration costs	**579**	571
Establishment costs	**54**	65
Directors' fees	**38**	37
	2,028	1,839

25 RELATED PARTY TRANSACTIONS

In the ordinary course of business, Muzn conducts transactions with certain of directors and shareholders of NBO and companies over which they have significant interest. Principal shareholders comprise of all shareholders with holding more than 10% of the paid-up share capital and others include directors, senior management and associate companies of principal shareholders and directors.

Muzn Islamic Banking

25 RELATED PARTY TRANSACTIONS (continued)

The Bank engages in transactions with related parties at arm's length terms and in accordance with relevant laws and regulations. Terms of these transactions are approved by the Bank's Board and Management.

The aggregate amounts of balances with such related parties are as follows:

	2023	2022
	RO'000	RO'000
Islamic financing	36	45
Customers' deposits	149	38

The statement of income includes the following amounts in relation to transactions with related parties:

Income from Islamic financing	1	2
Remuneration paid to Sharia Supervisory Board Members		
Chairman		
• remuneration proposed	8	8
• sitting fees paid	2	2
• other expenses paid	1	-
Others		
• remuneration proposed	15	15
• sitting fees paid	11	11
• other expenses paid	1	1
• management fee payable to conventional banking (refer 25.1)	162	120

25.1 Muzn Islamic banking pays NBO management fees for the shared services at 1% on gross income (that includes fees & other charges).

26 CONTINGENT LIABILITIES AND COMMITMENTS

26.1 Credit related contingent items

The Window is a party to financial instrument with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and others. The Window's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

The risk involved is essentially the same as the credit risk involved in extending financing facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements for customers applying for financing to customers.

The outstanding contract value or the notional amounts of these instruments at 31 December were as follows:

	2023	2022
	RO'000	RO'000
Letters of credit	3,052	7,238
Letters of guarantee	6,572	5,594
	9,624	12,832

The contingent liabilities are concentrated to corporate and retail trade sector only.

26.2 Capital and investment commitments

	2023	2022
	RO'000	RO'000
Contractual commitments for Forward Ijarah	1	48
Contractual commitments for Diminishing Musharaka	14,958	24,809
	14,959	24,857

27 FINANCIAL RISK MANAGEMENT

The primary objective of risk management is to safeguard the Muzn's resources from the various risks which Muzn faces. Muzn risk comprises of corporate credit risk, retail credit risk, market risk and operational risk. All risk management functions report to Chief risk officer and are independent from business units.

27.1 Credit risk

Credit risk is the risk that Muzn will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations to Muzn. Muzn manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman.

Credit risk management

To manage the level of credit risk, Muzn deals with counter-parties of good credit. Corporate Credit Committee of the Board, is the final credit approving authority of Muzn which is mainly responsible for approving all credit proposals beyond the authority level of the management. The Management Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk mitigation policies

Muzn manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and industries and countries. Muzn structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

To facilitate risk mitigation systems from renowned ratings agenesis have also been set up and are also being used as guidelines 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. The analysis of financing portfolio is provided below.

With the adoption of IFRS 9 dated 01 January 2019 of the expected credit losses approach, credit risk management has been enhanced further where more attributes have been taken into consideration, including but not limited, identifying existing emerging key risks related to industry, economics, transaction structure, terms and condition of the payments etc. in assessment of ECL.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. The assessment of significant increase in credit risk and the calculation of ECL both incorporate forward-looking information.

(a) Geographical concentrations

All the financial asset and financial liabilities reported in the balance sheet and all the items reported in off balance are based in Sultanate of Oman.

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

(b) Customer concentrations

On Assets	Due from Banks and financial institutions	Investments in Sukuk, shares and other securities	Murabaha receivables	Ijarah Muntahia Bittamleek
31 December 2023				
Retail			5,715	43,494
Corporate	57,641	26,109	4,946	5,389
	57,641	26,109	10,661	48,883

On Assets	Diminishing Musharaka	Forward Ijarah	Service Ijarah	Wakala Bil Istithmar
31 December 2023				
Retail	18,200	326	18	-
Corporate	117,485	19	-	71,159
	135,685	345	18	71,159

On Liabilities	Current accounts	Wakala accounts	Wakala from financial institutions	Due to banks and financial institutions	Mudaraba saving account (including reserves)
31 December 2023					
Retail	489	39,989	-	-	9,510
Corporate	21,980	203,125	48,621	786	-
	22,469	243,114	48,621	786	9,510

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

On Assets	Due from Banks and financial institutions	Investments in Sukuk, shares and other securities	Murabaha receivables	Ijarah Muntahia Bittamleek
31 December 2022				
Retail	-	-	3,861	50,680
Corporate	11,185	20,406	1,320	5,563
	11,185	20,406	5,181	56,243

On Assets	Diminishing Musharaka	Forward Ijarah	Service Ijarah	Wakala Bil Istithmar
31 December 2022				
Retail	14,119	465	21	-
Corporate	103,915	27	-	-
	118,034	492	21	-

On Liabilities	Current accounts	Wakala accounts	Wakala from financial institutions	Due to banks and financial institutions	Mudaraba saving account (including reserves)
31 December 2022					
Retail	870	28,967	-	-	9,511
Corporate	10,670	124,573	17,709	83	-
	11,540	153,540	17,709	83	9,511

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

(c) Economic sector concentrations

ASSETS (GROSS)						
31 December 2023	Murabaha receivables	Ijarah Muntahia Bittamleek - net	Diminishing Musharaka	Forward Ijarah	Service Ijarah	Wakala Bil Istithmar
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	5,762	43,627	18,304	329	18	-
Construction	-	5,302	73,964	23	-	-
Manufacturing	1,778	96	9,242	-	-	-
Trade	2,356	-	-	-	-	-
Services	826	893	39,463	-	-	71,342
	10,722	49,918	140,973	352	18	71,342

31 December 2023	Current accounts	Equity of unrestricted investment accountholders
	RO'000	RO'000
Personal	488	48,368
Services	21,981	252,877
	22,469	301,245

ASSETS (GROSS)					
31 December 2022	Murabaha receivables	Ijarah Muntahia Bittamleek - net	Diminishing Musharaka	Forward Ijarah	Service Ijarah
	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	3,898	50,843	14,300	469	21
Construction	-	4,819	47,538	29	-
Manufacturing	516	40	11,294	-	-
Trade	515	2	142	-	-
Services	290	1,344	48,696	-	-
	5,219	57,048	121,970	498	21

31 December 2022	Current accounts	Equity of unrestricted investment accountholders
	RO'000	RO'000
Personal	870	38,477
Services	10,670	142,283
	11,540	180,760

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

(d) Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is the common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Charges over business assets such as property, inventory and accounts receivable.
- Lien on deposits.
- Cash margins.
- Mortgages over residential and commercial properties.

The housing finance are secured by mortgage over the residential property. The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

An analysis of the collateral held and other credit enhancement held against financing granted is as follows:

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Property	98,979	57,557	13,439	169,975
Others	49,813	46,962	1,950	98,725
Balance As at 31 December 2023	148,792	104,519	15,389	268,700

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Property	54,172	80,893	9,615	144,680
Others	36,626	56,931	2,815	96,372
Balance As at 31 December 2022	90,798	137,824	12,430	241,052

Impairment assessment

Definition of default and cure

The window considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The window considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Window also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the window carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default.
- The borrower requesting emergency funding from the Window.
- The borrower having past due liabilities to public creditors or employees.
- The borrower is deceased.
- A material decrease in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral.

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Definition of default and cure (continued)

- A material decrease in the borrower's turnover or the loss of a major customer.
- A covenant breach not waived by the Window.
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection.
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

It is the Window's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Incorporation of forward-looking information

The Window incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Window formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman).
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 66 USD/barrel for Brent oil (2022: 66 USD/barrel for Brent oil).
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:

   a. historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
   b. size of the detachment equal to plus/minus 0.87 standard deviation from the base scenario as an approximate representation of 33.33% probability of alternative (adverse and favourable) scenarios,
   c. the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).

4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

The following tables set out the key drivers of expected loss and the assumptions used for the Window's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2023.

Key drivers	ECL scenario and assigned weightage	31 December 2023	
		2024	2025
	Base scenario	7.1%	7.1%
	Upside scenario	5.9%	6.3%
Real Interest Rate	Downside scenario	8.9%	8.4%
	Base scenario	2.9%	4.0%
	Upside scenario	4.3%	4.2%
GDP	Downside scenario	2.9%	3.7%
	Base scenario	-1.0%	0.1%
	Upside scenario	0.3%	0.2%
GDP per capita	Downside scenario	-1.0%	-0.2%

The following tables set out the key drivers of expected loss and the assumptions used for the Window's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2022.

Key drivers	ECL scenario and assigned weightage	31 December 2022	
		2023	2024
	Base scenario	7.1%	7.1%
	Upside scenario	5.4%	5.9%
Real Interest Rate	Downside scenario	9.5%	8.9%
	Base scenario	4.2%	2.9%
	Upside scenario	8.7%	4.2%
GDP	Downside scenario	4.2%	2.9%
	Base scenario	0.2%	-1.0%
	Upside scenario	4.6%	0.3%
GDP per capita	Downside scenario	0.2%	-1.0%

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Credit risk grade

The Window allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Corporate and small business lending

For corporate and investment banking financing, the borrowers are assessed by specialised credit risk employees of the Window. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Window and the complexity and size of the customer. Some of the less complex small business financing are rated within the Window's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises secured personal financing and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 financing, the Window assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 financing that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Window determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The PDs are then assigned to each economic scenario based on the outcome of Window's models.

Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Window's specialised credit

risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Window segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in Muzn.

The Window estimates regulatory and FAS 30/ FAS 30 LGDs on a different basis. Under FAS 30/ FAS 30, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI FAS 30/ FAS 30 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant Increase in Credit Risk

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

As a backstop, the Window considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed.

due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Window's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. The Window also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Window may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.
c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
d. Frequent changes in key senior management personnel without acceptable successors or professional management.
e. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
f. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Significant increase in credit risk (continued)

Management overlays may be applied to the model outputs if consistent with the objective of identifying a significant increase in credit risk. If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Window determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When the contractual terms of a financing have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Window monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Where appropriate, the Window makes adjustments to the ECL estimate outside the Window's regular modelling process to reflect management judgements. The changes to the assumptions underlying these judgemental adjustments could materially affect ECL within the next 12 months. These adjustments include post-model adjustments (PMAs) and overlays.

PMAs are adjustments to the ECL balance as part of the year-end reporting process to reflect late updates to market data, known model deficiencies and expert credit judgement. They are usually calculated and allocated at a granular level through modelled analysis, calculated separately for each economic scenario and where appropriate used to adjust stage allocation outcomes.

Overlays are adjustments to the ECL model outputs that have been made outside the detailed ECL calculation and reporting process. These do not meet the Window's definition of PMAs because they are not calculated at a granular level through modelled analysis.

The Window has internal governance frameworks and controls in place to assess the appropriateness of all judgemental adjustments. The aim of the Window is to incorporate these adjustments into the ECL models, where possible, as part of the periodic recalibration and model assessment procedures.

Total judgemental adjustments as at 31 December 2023 increased the loss allowance by 1.22% compared to ECL allowance derived through the ECL models.

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Significant increase in credit risk (continued)

Impairment charge and provisions held as at 31 December 2023

			RO 000
	As per CBO Norms	**As per FAS 30**	**Difference**
Impairment loss charged to profit and loss account	-	(1,690)	-
Provisions required as per CBO norms / held as per FAS 30	5,969	5,864	(105)
Gross NPF ratio	-	2.28	-
Net NPF ratio	-	2.02	-

Impairment charge and provisions held as at 31 December 2022

			RO 000
	As per CBO Norms	As per FAS 30	Difference
Impairment loss charged to profit and loss account	-	(1,519)	-
Provisions required as per CBO norms / held as per FAS 30	4,010	4,175	165
Gross NPF ratio	-	3.14	-
Net NPF ratio	-	2.80	-

The related difference (net of tax) between the existing financing loss impairment computed in accordance with the requirements of AAOIFI and CBO guidelines and the impairment allowance computed under FAS 30, has been transferred to a financing loss impairment reserve from accumulated losses.

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2023.

Asset Classification as per CBO Norms	Asset Classification as per FAS 30	Gross amount	Provision required as per CBO Norms	Provision held as per FAS 30	Difference between CBO provision required and provision held	Net Amount as per CBO norms	Net Amount as per FAS 30	Profit recognised in P&L as per FAS 30	Reserve Profit as per CBO norms
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(10)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	**195,276**	**3,170**	**408**	**2,762**	**192,106**	**194,868**	-	-
	Stage 2	**50,798**	**37**	**1,034**	**(997)**	**50,761**	**49,764**	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**246,074**	**3,207**	**1,442**	**1,765**	**242,867**	**244,632**	-	-
Special mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	**22,787**	**228**	**3,278**	**(3,050)**	**22,559**	**19,509**		-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**22,787**	**228**	**3,278**	**(3,050)**	**22,559**	**19,509**	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	**225**	**55**	**9**	**61**	**155**	**216**		**15**
SUBTOTAL		**225**	**55**	**9**	**61**	**155**	**216**	-	**15**
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	**476**	**118**	**72**	**123**	**281**	**404**	-	**77**
SUBTOTAL		**476**	**118**	**72**	**123**	**281**	**404**	-	**77**
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	**3,763**	**2,361**	**1,032**	**1,978**	**753**	**2,731**	-	**649**
SUBTOTAL		**3,763**	**2,361**	**1,032**	**1,978**	**753**	**2,731**	-	**649**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	**90,015**	-	**27**	**(27)**	**90,015**	**89,988**	-	-
	Stage 2	**3,386**	-	**4**	**(4)**	**3,386**	**3,382**	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**93,401**	-	**31**	**(31)**	**93,401**	**93,370**	-	-
Total	**Stage 1**	**285,291**	**3,170**	**435**	**2,735**	**282,121**	**284,856**	-	-
	Stage 2	**76,971**	**265**	**4,316**	**(4,051)**	**76,706**	**72,655**	-	-
	Stage 3	**4,464**	**2,534**	**1,113**	**2,162**	**1,189**	**3,351**	-	**741**
	Total	**366,726**	**5,969**	**5,864**	**846**	**360,016**	**360,862**	-	**741**

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2022.

Asset Classification as per CBO Norms	Asset Classification as per FAS 30	Gross amount	Provision required as per CBO Norms	Provision held as per FAS 30	Difference between CBO provision required and provision held	Net Amount as per CBO norms	Net Amount as per FAS 30	Profit recognised in P&L as per FAS 30	Reserve Profit as per CBO norms
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(10)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	111,366	1,158	193	965	110,208	111,173	-	-
	Stage 2	46,041	517	850	(333)	45,524	45,191	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		157,407	1,675	1,043	632	155,732	156,364	-	-
Special mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	23,706	237	2,077	(1,840)	23,469	21,629	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		23,706	237	2,077	(1,840)	23,469	21,629	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		-	-	-	-	-	-	-	-
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,309	556	113	527	1,669	2,196	-	84
SUBTOTAL		2,309	556	113	527	1,669	2,196	-	84
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,334	1,542	909	1,192	(767)	425	-	559
SUBTOTAL		1,334	1,542	909	1,192	(767)	425	-	559
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	43,557	-	12	(12)	43,557	43,545	-	-
	Stage 2	963	-	21	(21)	963	942	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		44,520	-	33	(33)	44,520	44,487	-	-
Total	Stage 1	154,923	1,158	205	953	153,765	154,718	-	-
	Stage 2	70,710	754	2,948	(2,194)	69,956	67,762	-	-
	Stage 3	3,643	2,098	1,022	1,719	902	2,621	-	643
	Total	229,276	4,010	4,175	478	224,623	225,101	-	643

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2023.

Restructured Financing

Asset classification as per CBO's Norms	Asset classification as per FAS 30	Gross carrying amount	Provision required as per CBO's norms	Provision held as per FAS 30	Difference between CBO provision required and provision held under FAS 30	Net carrying amount as per FAS 30	Reserve interest as per CBO's norms
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	196	2	2	-	194	-
	Stage 2	29,111	291	3,760	(3,469)	25,351	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		29,307	293	3,762	(3,469)	25,545	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	76	19	9	-	53	14
SUBTOTAL		76	19	9	-	53	14
Total	Stage 1	196	2	2	-	194	-
	Stage 2	29,111	291	3,760	(3,469)	25,351	-
	Stage 3	76	19	9	-	53	14
	Total	29,383	312	3,771	(3,469)	25,598	14

Muzn Islamic Banking

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2022.

Restructured Financing

Asset classification as per CBO's Norms	Asset classification as per FAS 30	Gross carrying amount	Provision required as per CBO's norms	Provision held as per FAS 30	Difference between CBO provision required and provision held under FAS 30	Net carrying amount as per FAS 30	Reserve interest as per CBO's norms
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	20,179	203	1,303	(1,101)	18,954	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		20,257	203	1,303	(1,101)	18,954	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	78	-	-	-	-	-
SUB TOTAL		-	-	-	-	-	-
Total	Stage 1	-	-	-	-	-	-
	Stage 2	20,257	203	1,303	(1,101)	18,954	-
	Stage 3	-	-	-	-	-	-
	Total	20,257	203	1,303	(1,101)	18,954	-

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Movement in Expected credit losses (ECL) as at 31 December 2023

	Stage 1	Stage 2	Stage 3	Total
	RO 000	RO 000	RO 000	RO 000
EXPOSURE SUBJECT TO ECL				
• Financing contracts with customers	195,276	73,585	4,464	273,325
• Financial assets at amortised cost	22,292	-	-	22,292
• Unutilized portion of financing contracts and Financial Guarantees	9,624	-	-	9,624
• Due from financial institutions	57,658	-	-	57,658
	284,850	73,585	4,464	362,899
OPENING BALANCE AS AT 1 JANUARY 2023				
• Financing contracts with customers	193	2,928	1,664	4,785
• Investments in Sukuk, shares and other securities	7	21	-	28
• Financing Commitments and Financial Guarantees	-	5	-	5
• Due from financial institutions	-	-	-	-
	200	2,954	1,664	4,818
FINANCING CONTRACTS WITH CUSTOMERS				
Net transfer between stages				
• Transfer to Stage 1	106	(106)	-	-
• Transfer to Stage 2	(109)	110	(1)	-
• Transfer to Stage 3	(3)	(11)	14	-
• Investments in Sukuk, shares and other securities	-	-	-	-
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from financial institutions	-	-	-	-
	(6)	(7)	13	-
CHARGE FOR THE PERIOD (NET)				
• Financing contracts with customers (including contractual profit reserved)	222	1,391	177	1,790
• Investments in Sukuk, shares and other securities	3	(21)	-	(18)
• Unutilized portion of financing contracts and Financial Guarantees	-	(1)	-	(1)
• Due from financial institutions	17	-	-	17
	242	1,369	177	1,788
CLOSING BALANCE - AS AT 31 DECEMBER 2023				
• Financing contracts with customers	409	4,311	1,854	6,574
• Investments in Sukuk, shares and other securities	10	-	-	10
• Unutilized portion of financing contracts and Financial Guarantees	-	4	-	4
• Due from financial institutions	17	-	-	17
	436	4,315	1,854	6,605

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Movement in Expected credit losses (ECL) as at 31 December 2022

	Stage 1	Stage 2	Stage 3	Total
	RO 000	RO 000	RO 000	RO 000
EXPOSURE SUBJECT TO ECL				
• Financing contracts with customers	111,366	69,747	3,643	184,756
• Financial assets at amortised cost	17,281	963	-	18,244
• Unutilized portion of financing contracts and Financial Guarantees	12,901	-	-	12,901
• Due from financial institutions	11,185	-	-	11,185
	152,733	70,710	3,643	227,086
OPENING BALANCE AS AT 1 JANUARY 2022				
• Financing contracts with customers	517	1,150	1,360	3,027
• Investments in Sukuk, shares and other securities	40	-	-	40
• Financing Commitments and Financial Guarantees	-	-	-	-
• Due from financial institutions	-	-	-	-
	557	1,150	1,360	3,067
FINANCING CONTRACTS WITH CUSTOMERS				
Net transfer between stages				
• Transfer to Stage 1	131	(127)	(4)	-
• Transfer to Stage 2	(37)	37	-	-
• Transfer to Stage 3	(4)	(45)	49	-
• Investments in Sukuk, shares and other securities	-	-	-	-
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from financial institutions	-	-	-	-
	90	(135)	45	-
CHARGE FOR THE PERIOD (NET)				
• Financing contracts with customers (including contractual profit reserved)	(414)	1,912	260	1,758
• Investments in Sukuk, shares and other securities	(33)	21	-	(12)
• Unutilized portion of financing contracts and Financial Guarantees	-	5	-	5
• Due from financial institutions	-	-	-	-
	(447)	1,938	260	1,751
CLOSING BALANCE - AS AT 31 DECEMBER 2022				
• Financing contracts with customers	193	2,927	1,665	4,785
• Investments in Sukuk, shares and other securities	7	21	-	28
• Unutilized portion of financing contracts and Financial Guarantees	-	5	-	5
• Due from financial institutions	-	-	-	-
	200	2,953	1,665	4,818

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Movement in financing as at 31 December 2023

	Stage 1	Stage 2	Stage 3	Total
	RO 000	RO 000	RO 000	RO 000
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2023	114,110	67,533	3,112	187,756
Net Transfer between stages	(520)	(880)	1,400	-
New Finances	90,490	16,996	-	107,486
Recovery of Financing	(8,804)	(10,064)	(48)	(18,916)
Closing Balance - as at 31 December 2023	195,276	73,585	4,464	273,325

Movement in financing as at 31 December 2022

	Stage 1	Stage 2	Stage 3	Total
	RO 000	RO 000	RO 000	RO 000
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2022	101,931	55,354	3,188	160,473
Net Transfer between stages	(2,870)	2,509	360	-
New Finances	45,252	18,216	-	63,468
Recovery of Financing	(30,203)	(8,546)	(436)	(39,185)
Closing Balances - as at 31 December 2022	114,110	67,533	3,112	187,756

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2023:

	Stage 1	Stage 2	Stage 3	Total
	RO 000	RO 000	RO 000	RO 000
Gross financing to customers - corporate Banking				
Performing financing (Grades 1-5)	128,212	44,048	-	172,260
Performing financing (Grades 6)	1,195	4,916	-	6,111
Performing financing (Grades 7)	-	22,787	-	22,787
Non-performing financing (Grades 8-10)	-	-	4,127	4,127
Gross financing to customers - Corporate Banking	129,407	71,751	4,127	205,285
Gross financing to customers – Retail Banking				
Performing financing (Grades 1-7)	65,869	1,834	-	67,703
Non-performing financing (Grades 8-10)	-	-	337	337
Gross financing to customers - retail Banking	65,869	1,834	337	68,040
Total gross financing to customers	195,276	73,585	4,464	273,325
LOSS ALLOWANCE-CARRYING AMOUNT	408	4,312	1,854	6,574
Credit related contingent items				
Performing financing (Grades 1-5)	6,390	3,088	-	9,478
Performing financings (Grades 6)	89	-	-	89
Performing financings (Grades 7)	-	57	-	57
Non-performing financing (Grades 8-10)	-	-	-	-
Total gross credit related contingent items	6,479	3,145	-	9,624
LOSS ALLOWANCE-CARRYING AMOUNT	27	4	-	31

Due from Banks and money market placements	Stage 1	Stage 2	Stage 3	Total
Performing Banks (Aa1 to Baa3)	49,958	-	-	49,958
Performing Banks (Unrated)	7,700	-	-	7,700
Due from Banks and money market placements	57,658	-	-	57,658
LOSS ALLOWANCE-CARRYING AMOUNT	9	8	-	17
Investment securities	22,292	-	-	22,292
LOSS ALLOWANCE-CARRYING AMOUNT	10	-	-	10

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2022:

	Stage 1	Stage 2	Stage 3	Total
	RO 000	RO 000	RO 000	RO 000
Gross financing to customers - corporate Banking				
Performing financing (Grades 1-5)	48,486	38,307	-	86,793
Performing financing (Grades 6)	453	1,020	-	1,473
Performing financing (Grades 7)	-	23,706	57	23,763
Non-performing financing (Grades 8-10)	-	-	3,196	3,196
Gross financing to customers - Corporate Banking	48,939	63,033	3,253	115,225
Gross financing to customers – Retail Banking				
Performing financing (Grades 1-7)	62,427	6,714	-	69,141
Non-performing financing (Grades 8-10)	-	-	390	390
Gross financing to customers - retail Banking	62,427	6,714	390	69,531
Total gross financing to customers	111,366	69,747	3,643	184,756
LOSS ALLOWANCE-CARRYING AMOUNT	193	2,927	1,022	4,142
Credit related contingent items				
Performing financing (Grades 1-5)	5,465	7,189	-	12,654
Performing financings (Grades 6)	-	40	-	40
Performing financings (Grades 7)	-	139	-	139
Total gross credit related contingent items	5,465	7,368	-	12,833
LOSS ALLOWANCE-CARRYING AMOUNT	-	5	-	5

Due from Banks and money market placements	Stage 1	Stage 2	Stage 3	Total
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	8,596	-	-	8,596
Performing Banks (Unrated)	2,589	-	-	2,589
Due from Banks and money market placements	11,185	-	-	11,185
LOSS ALLOWANCE-CARRYING AMOUNT	-	-	-	-
Investment securities	17,281	963	-	18,244
LOSS ALLOWANCE-CARRYING AMOUNT	7	21	-	28

27 FINANCIAL RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Model risk management:

The Window has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss.

To manage the model risks, the Window has implemented the Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of Muzn. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Window has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defence for the Window in terms of usage of models.

27.2 Liquidity risk

Liquidity risk is the potential inability to meet Muzn's liabilities as they become due. It arises when Muzn is unable to generate cash to cope with a decline in deposits or increase in assets.

Muzn's liquidity risk management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of the relevant CBO guidelines on liquidity risk management through cash flow approach. The liquidity management does not only measure the liquidity position of Muzn on an going basis but also examine how funding requirement are likely to evolve under various scenarios.

Muzn monitors its liquidity risk through cash flow approach and stock approach. Under the cash flow approach, Muzn 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 over five years. The mismatches in various time buckets indicate liquidity gap and Muzn strictly adheres to the CBO set limit of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, Muzn has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Muzn controls and monitors the liquidity risk and ensures that Muzn is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. The middle office in Credit risk division also monitors the liquidity position of Muzn and provides the liquidity gap to Treasury Department to meet liquidity gaps.

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 (NSFR).The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is required to maintain a minimum required level of 100% effective from January 1, 2020.

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 required to maintain a minimum ratio of 100% as per the regulatory guidance.

27 FINANCIAL RISK MANAGEMENT (continued)

27.2 Liquidity risk (continued)

The residual maturity profile of the assets, liabilities and equity at 31 December 2023 is as follows:

31 December 2023	On demand within 1 month	1 to 6 month	6 to 12 months	1 to 5 years	Over 5 years	Total
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Cash and balances with Central Bank of Oman	14,312	2,344	1,417	2,051	1,461	21,585
Due from banks and financial institutions	38,391	19,250	-	-	-	57,641
Investments in Sukuk, shares and other securities	1,566	1,069	-	4,185	19,289	26,109
Murabaha receivables	2,687	2,743	1,115	1,920	2,196	10,661
Ijarah – net	287	1,613	1,554	5,207	40,222	48,883
Diminishing Musharaka	541	3,726	4,685	15,916	110,817	135,685
Forward Ijarah	-	-	-	-	345	345
Service Ijarah	-	2	2	9	5	18
Wakala Bil Istithmar	1,600	2,060	2,128	10,841	54,530	71,159
Property and equipment (net)	-	-	-	-	180	180
Other assets	3,533	-	-	-	-	3,533
TOTAL ASSETS	**62,917**	**32,807**	**10,901**	**40,129**	**229,045**	**375,799**
Current accounts	4,494	7,864	4,494	-	5,617	22,469
Due to banks and financial institutions	786	-	-	-	-	786
Other liabilities	7,030	-	-	-	-	7,030
Unrestricted investment account holders	43,119	101,835	44,219	67,614	44,458	301,245
Mudaraba savings account (including reserves)	838	1,676	1,676	2,513	2,807	9,510
Due to banks and financial institutions under Wakala	18,969	29,652	-	-	-	48,621
Customer Wakala accounts	23,312	70,507	42,543	65,101	41,651	243,114
Owner's equity	-	-	-	-	44,269	44,269
Total liabilities and Unrestricted investment accountholders and owners' equity	55,429	109,699	48,713	67,614	94,344	375,799
Total liquidity gap	7,488	(76,892)	(37,812)	(27,485)	134,701	-
Cumulative liquidity gap	7,488	(69,404)	(107,216)	(134,701)	-	-

27 FINANCIAL RISK MANAGEMENT (continued)

27.2 Liquidity risk (continued)

The maturity profile of the assets, liabilities and equity at 31 December 2022 is as follows:

31 December 2022	On demand within 1 month	1 to 6 month	6 to 12 months	1 to 5 years	Over 5 years	Total
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Cash and balances with Central Bank of Oman	2,410	1,629	625	2,460	786	7,910
Due from banks and financial institutions	11,185	-	-	-	-	11,185
Investments in Sukuk, shares and other securities	-	-	963	-	19,443	20,406
Murabaha receivables	734	648	669	2,103	1,027	5,181
Ijarah – net	319	1,722	1,929	13,537	38,736	56,243
Diminishing Musharaka	504	4,201	4,130	38,375	70,824	118,034
Forward Ijarah	-	-	-	-	492	492
Service Ijarah	-	2	2	13	4	21
Property and equipment (net)	-	-	-	-	188	188
Other assets	2,848	-	-	-	-	2,848
TOTAL ASSETS	18,000	8,202	8,318	56,488	131,500	222,508
Current accounts	2,308	4,039	2,308	-	2,885	11,540
Due to banks and financial institutions	83	-	-	-	-	83
Other liabilities	3,559	-	-	-	-	3,559
Unrestricted investment account holders						
Mudaraba savings account (including reserves)	860	1,720	1,720	2,582	2,629	9,511
Due to banks and financial institutions under Wakala	17,709	-	-	-	-	17,709
Customer Wakala accounts	9,332	48,467	17,383	59,902	18,456	153,540
Owner's equity	-	-	-	-	26,566	26,566
Total liabilities and Unrestricted investment accountholders and owners' equity	33,851	54,226	21,411	62,484	50,536	222,508
Total liquidity gap	(15,851)	(46,024)	(13,093)	(5,996)	80,964	-
Cumulative liquidity gap	(15,851)	(61,875)	(74,968)	(80,964)	-	-

Liquidity coverage ratio for the year ended 31 December 2023:

	2023	2022
	Percentage	Percentage
Liquidity coverage ratio	**230.8**	580.1

Net Stable Funding ratio for the year ended 31 December 2023:

	2023	2022
	Percentage	Percentage
Net stable funding ratio	**104.8**	114.3

27 FINANCIAL RISK MANAGEMENT (continued)

27.3 Market risk

Market risk includes currency risk, profit rate risk and equity risk.

(a) Currency risk

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

(b) Profit rate risk

Profit rate risk (PRR) is the risk that Muzn will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders in based on Profit Sharing Agreements. Therefore, Muzn is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when Muzn's results do not allow it to distribute profits in line with the market rates.

Muzn 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 Muzn's Asset and Liability Management Committee (ALCO).

Profit rate risk is managed by monitoring the sensitivity of Muzn's financial assets and liabilities to various standardized profit rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in profit rate is provided below:

As at December 2023	200 bps increase	200 bps decrease
Earnings impact - RO'000s	140	(140)

As at December 2022	200 bps increase	200 bps decrease
Earnings impact - RO'000s	291	(291)

27 FINANCIAL RISK MANAGEMENT (continued)

27.3 Market risk (continued)

B) profit rate risk (continued)

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to re-pricing of assets and that of the corresponding liability. Muzn manages these mismatches by following policy guidelines and reduces risk by matching the re-pricing of assets and liabilities.

31 December 2023	Effective average profit rate	on demand within 6 months	3 to 12 months	1 to 5 years	Over 5 years	Non-profit bearing	Total
		%	RO 000	RO 000	RO 000	RO 000	RO 000
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	21,585	21,585
Due from banks and financial institutions	0.0%	57,641	-	-	-	-	57,641
Financial assets at amortization cost	5.5%	2,634	-	13,844	9,631	-	26,109
Murabaha receivables	5.3%	2,526	2,977	3,325	1,833	-	10,661
Ijarah– net	4.5%	7,159	1,751	41,527	(1,554)	-	48,883
Diminishing Musharaka	5.2%	21,239	4,598	109,807	41	-	135,685
Forward Ijarah	5.5%	-	-	-	-	345	345
Service Ijarah	4.9%	10	2	6	-	-	18
Wakala Bil Istithmar	7.4%	10,841	2,060	55,967	2,291	-	71,159
Property and equipment- net	N/A	-	-	-	-	180	180
Other assets	N/A	-	-	-	-	3,533	3,533
TOTAL ASSETS		102,050	11,388	224,476	12,242	25,643	375,799
Current accounts	N/A	-	-	-	-	22,469	22,469
Due to banks and financial institutions	0.0%	786	-	-	-	-	786
Other liabilities	N/A	-	-	-	-	7,030	7,030
Unrestricted investment account holders	N/A	115,302	73,871	67,614	44,458	-	301,245
Mudaraba savings account (including reserves)	0.5%	2,514	1,676	2,513	2,807	-	9,510
Due to banks and financial institutions under Wakala	5.9%	18,969	29,652	-	-	-	48,621
Customer Wakala accounts	4.6%	93,819	42,543	65,101	41,651	-	243,114
Owners' equity	N/A	-	-	-	-	44,269	44,269
Total liabilities and owners' equity		116,088	73,871	67,614	44,458	73,768	375,799
On-balance sheet gap		(14,038)	(62,483)	156,862	(32,216)	(48,125)	-
Cumulative profit sensitivity gap		(14,038)	(76,521)	80,341	48,125	-	-

27 FINANCIAL RISK MANAGEMENT (continued)

27.3 Market risk (continued)

B) profit rate risk (continued)

Profit rate sensitivity gap (continued)

31 December 2022	Effective average profit rate	on demand within 6 months	3 to 12 months	1 to 5 years	Over 5 years	Non-profit bearing	Total
		%	RO 000	RO 000	RO 000	RO 000	RO 000
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	7,910	7,910
Due from banks and financial Institutions	0.0%	10,010	-	-	-	1,175	11,185
Investments in Sukuk, shares and other securities	5.1%	-	963	13,952	5,491	-	20,406
Murabaha receivables	5.4%	1,382	669	2,103	1,027	-	5,181
Ijarah– net	5.3%	2,041	1,929	13,537	38,736	-	56,243
Diminishing Musharaka	5.8%	4,705	4,130	38,375	70,824	-	118,034
Forward Ijarah	5.8%	-	-	-	-	492	492
Service Ijarah	4.5%	2	2	13	4	-	21
Property and equipment- net	N/A	-	-	-	-	188	188
Other assets	N/A	-	-	-	-	2,848	2,848
TOTAL ASSETS		18,140	7,693	67,980	116,082	12,613	222,508
Current accounts	N/A	-	-	-	-	11,540	11,540
Due to banks and financial institutions	0.0%	83	-	-	-	-	83
Other liabilities	N/A	-	-	-	-	3,559	3,559
Unrestricted investment account holders							
Mudaraba savings account (including reserves)	0.6%	2,580	1,720	2,582	2,629	-	9,511
Due to banks and financial institutions under Wakala	2.3%	17,709	-	-	-	-	17,709
Customer Wakala accounts	3.5%	57,799	17,383	59,902	18,456	-	153,540
Owners' equity	N/A	-	-	-	-	26,566	26,566
Total liabilities and owners' equity		78,171	19,103	62,484	21,085	41,665	222,508
On-balance sheet gap		(60,031)	(11,410)	5,496	94,997	(29,052)	-
Cumulative profit sensitivity gap		(60,031)	(71,441)	(65,945)	29,052	-	-

27 FINANCIAL RISK MANAGEMENT (continued)

27.3 Equity risk

The proprietary equity positions are held in the 'FVOCI' & "FVPL" category. The market risk is monitored though daily mark-to market reports which are circulated to the management and, if any, required actions are promptly taken. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

27.4 Operational risk

Muzn has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Muzn to provide 15% of the average three years gross annual income as capital charge for operational risk.

Operational risk is the risk of loss arising from systems failure, human error, frauds or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set-off thresholds are reported to the Board Risk Committee. In addition to this, the Bank has an operational loss reporting database.

Information Security is an essential component of Operational Risk Management. The Bank has implemented the latest security infrastructure like firewalls, intrusion prevention systems, anti-virus soft wares, etc. Periodic vulnerability assessments are conducted to ensure the security of the systems.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical Banking processes are tested to ascertain availability during such situations.

28 CAPITAL RISK MANAGEMENT

Muzn 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. Muzn's overall strategy remains the same as applicable for Head Office.

The capital adequacy for Muzn is set out as below:

	2023	2022
	RO'000	RO'000
Capital base		
Tier I capital	43,655	25,961
Tier II capital	1,938	1,644
TOTAL CAPITAL BASE	45,593	27,605
Risk weighted assets		
Credit risk	258,183	159,902
Market risk	2,579	7,878
Operational risk	10,979	9,712
TOTAL RISK WEIGHTED ASSETS	271,741	177,492
Capital ratios		
Total Tier I ratio	16.06%	14.63%
TOTAL CAPITAL RATIO	16.78%	15.55%

29 SEGMENTAL INFORMATION

Muzn is organised into three main business segments:

1. Retail banking - incorporating private customer current accounts, savings, deposits, Murabaha receivables, Ijarah, Forward Ijarah, Wakala and Diminishing Musharaka.
2. Corporate banking - incorporating corporate customer current accounts, savings, deposits, Murabaha receivables, Diminishing Musharaka, Ijarah and Forward Ijarah.
3. Treasury and investments.

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and deposits.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Muzn Islamic Banking

29 SEGMENTAL INFORMATION (continued)

At 31 December 2023	Retail banking	Corporate banking	Treasury and investments	Others	Total
	RO 000	RO 000	RO 000	RO 000	RO 000
Segment operating revenues	3,192	9,212	3,547	-	15,951
Other revenues	67	425	216	223	931
Segment operating revenues	3,259	9,637	3,763	223	16,882
Profit expenses	(1,425)	(6,843)	(1,798)	(255)	(10,321)
NET OPERATING INCOME	1,834	2,794	1,965	(32)	6,561
Segment cost					
Operating expenses including depreciation	(721)	(312)	(109)	(1,065)	(2,207)
Impairment for finances net of allowance for provision	93	(1,879)	96	-	(1,690)
NET PROFIT FOR THE YEAR	1,206	603	1,952	(1,097)	2,664
Gross segment assets	68,942	205,276	104,453	3,713	382,384
Less: Impairment allowance	(289)	(6,286)	(10)	-	(6,585)
Segment assets	68,653	198,990	104,443	3,713	375,799
SEGMENT LIABILITIES	48,260	225,702	49,407	52,430	375,799

29 SEGMENTAL INFORMATION (continued)

At 31 December 2022	Retail banking	Corporate banking	Treasury and investments	Others	Total
	RO 000	RO 000	RO 000	RO 000	RO 000
Segment operating revenues	3,366	5,815	1,511	-	10,692
Other revenues	74	729	99	62	964
Segment operating revenues	3,440	6,544	1,610	62	11,656
Profit expenses	(984)	(4,188)	(162)	(138)	(5,472)
NET OPERATING INCOME	2,456	2,356	1,448	(76)	6,184
Segment cost					
Operating expenses including depreciation	(700)	(157)	(116)	(1,055)	(2,028)
Impairment for finances net of allowance for provision	77	(1,608)	12	-	(1,519)
NET PROFIT FOR THE YEAR	1,833	591	1,344	(1,131)	2,637
Gross segment assets	70,458	115,225	38,602	3,036	227,321
Less: Impairment allowance	(384)	(4,401)	(28)	-	(4,813)
Segment assets	70,074	110,824	38,574	3,036	222,508
SEGMENT LIABILITIES	38,383	135,301	17,792	31,032	222,508

58
Branches in Oman

18
Sadara Centres

06
Muzn Islamic Banking Branches

02
Branches in UAE

NBO's Branch Network

BRANCH	TELEPHONE NO	
Azaiba - HO Branch	24778190	24778355
MUSCAT SOUTH REGION BRANCHES		
Hamriya	24831520	24833792
Corniche	24715103	24714245
Wattaya	24563830	24560585
Qurriat	24846100	24846415
Qurum	24560050	24562615
CBD	24778350	24778351
Amerat	24879464	24875766
Shati Qurum	24607161	24607687
MUSCAT NORTH REGION BRANCHES		
Al Azaiba	24597855	24591341
Al Mawaleh	24511164	24511165
Bousher	24587291	24587294
Ministry of Health	24692310	24692309
Al Khoudh	24537950	24537951
Seeb Town	24423512	24423511
Maabella	24453314	24455957
Ghoubra\Main Branch	24778337	24778339
Bukha	26828014	
Muscat International Airport	24356922	24356921
Ministry of Education	24253778	24253778
Khasab	26731442	26730467
Al Khuwair	24486441	24486481
Sultan Qaboos University	24446768	24446556

BRANCH	TELEPHONE NO	
DAKHLIYA & DHAHIRA REGION BRANCHES		
Nizwa	25413169	25410072
Buraimi	25653037	
Ibri	25691161	
Bahla	25363613	25363786
Sumail	25350355	
Fanja	25361190	
Al Hamra	25422008	
Firq	25432149	
Dhank	25676603	
Araqi	25694342	
BATINA REGION BRANCHES		
Rustaq	26878334	26878332
Sohar Al Hambar	26859105	26859104
Shinas	26748394	26747663
Barka	26882007	
Khabourah	26802380	26805155
Musna	26870182	26871118
Saham	26855299	26855146
Bidaya	26709340	26709240
Sohar Ind	26755878	26755875
Al Suwaiq	26862764	
Sohar	26840234	26843780
Liwa	26762073	26762075
SHARQIYA REGION BRANCHES		
Ibra	25570144	25570015
Sur	25545158	25540246
Al Kamil	25557524	25557770
Bani Bu Ali	25554015	25554138
Jalaan	25550950	25550110
Masirah	25504516	25504026
Al Mudhaibi	25578484	25578014
Sinaw	25524212	25524223
Duqum	25427101	25427130

BRANCH	TELEPHONE NO	
DHOFAR REGION BRANCHES		
Salalah	23291346	23291601
SQH	23211092	23211042
Mirbat	23268345	23268346
Saada	23225283	23226031
New Salalah	23298027	23298037
SADARA CENTRE		
Azaiba HO	24778151	
Al Khoudh	24271367	
Al Mawaleh	24348118	
MOE	24510007	
Al Khuwair	22826073	
CBD	24774339	
Shatti	24607679	
Sur	25545414	
Sohar Hambar	26859103	
Rustaq	26878334	
SIA	26755886	
Saham	26855299	
Barka	26882368	
Buraimi	25642989	
Nizwa	25431401	
Firq	25431122	
Salalah	23298092	
MUZN ISLAMIC BANKING		
Muzn Aziba	24778223	24778508
Muzn Mabelah	24452325	24452387
Muzn Sohar	26846692	26846044
Muzn Nizwa	25411241	25411681
Muzn Sur	25540726	25540642
Muzn Salalah	23291310	23289230
UAE		
Abu Dhabi	97126974000	
Dubai	97143049400	

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