البنك الوطني العماني
NBO

Annual Report

2024

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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2024 Overview

At NBO, we are committed to unlock opportunities and drive growth through enhancing the overall banking experience and strengthening our customer-centric approach.

Amal Suhail Bahwan Al Mukhaini
Chairperson

Chairperson's Annual Report 2024

On behalf of the Board of Directors of National Bank of Oman SAOG, I am pleased to present the 2024 Annual Report for the period ended 31 December 2024.

Oman's Economy

Throughout 2024, Oman's economy has continued to perform strongly driven by its commitment to achieve Oman Vision 2040. The rising oil output, constant reforms, alongside investing in non-oil sectors have shaped higher non-oil growth.

These concerted efforts and the impact they have had on the economy were recognised with an upgrade from international credit rating agency, Standard & Poor's. Oman's sovereign credit rating was upgraded to BBB- with a stable outlook. This upgrade returned the Sultanate and its key institutions to investment-grade status, providing a more robust environment for investors and lenders and underpinning confidence in the Omani economy.

Standard & Poor's also expects real GDP to grow by about 2 per cent annually on average from 2024 to 2027, driven by an increase in average oil production until 2027, which will continue to stimulate non-oil sector growth by about 2 per cent annually. The agency notes that Oman is committed to reducing public debt, is expected to reach 29 per cent of GDP by 2027.

NBO's Operating Performance

In 2024, the Bank's Net Profit stood at OMR 63.06 million compared to OMR 58.03 million for the same period last year, reflecting an increase of 8.7 percent.

Total Operating Income for the year 2024 increased to OMR 151.33 million, from OMR 145.87 million last year, reflecting a 3.7 percent increase aided by a strong growth of 20.4 percent in Fee Income.

Operating expenses for the year ended 2024 increased to OMR 62.98 million from OMR 61.91 million for the corresponding period in 2023, an increase of 1.7 percent. The Bank continues to invest in its people, technology, and infrastructure.

Operating Profit, as a result, grew by 5.2 per cent year on year.

Net Impairment charge for the year 2024 was OMR 14.14 million, compared to OMR 15.70 million for the corresponding period last year, representing a decrease of 9.9 percent.

Gross loans and advances increased to OMR 4.09 billion, reflecting a growth of 11.7 per cent over last year. Customer deposits as of 31 December 2024 are at OMR 4.13 billion, recording a strong growth of 14.4 per cent over last year. This growth is complemented by a healthy CASA mix.

Highest Net Profit in NBO's history

OMR
63.06 Million

Capital Adequacy Ratio:
17.1%

Total assets as of 31 December 2024 stood at OMR 5.24 billion, a growth of 8.7 per cent over last year.

The Bank's Core Equity and Total Capital Adequacy Ratio stood at 11.5 percent and 17.1 percent, respectively.

Our Strategy & Organizational Updates

Guided by the aspiration to 'Return to Prominence,' we have successfully advanced our five-year strategy (2021-2025), achieving remarkable progress across its strategic themes: Safeguard of Assets Quality, Value Creation, and Sustainability.

Over the first four years of the strategy, NBO has achieved sustainable growth and performed strongly across all P&L lines with improvement in key return metrics, underscoring its financial resilience and strategic acumen. Despite challenges such as rising cost of funds and interest rate cuts, NBO remains on its growth trajectory.

The Bank has sustained its leadership in digital innovation with pioneering initiatives, including the introduction of E-KYC, digital credit card application service and Eid note dispensing machines and, while further reinforcing its forward-thinking approach by launching the NBO Fintech Accelerator Programme, the first of its kind in Oman's banking sector, and organizing the NBO Hackathon, fostering creativity and collaboration to develop innovative solutions.

Muzn Islamic Banking remains a strategic priority for NBO, contributing significantly to the vision of 'Return to Prominence'. Muzn has achieved notable milestones, including the introduction of several new products, such as Corporate Term Wakala Finance, Tijarah Account, Premium and Privilege Banking, and eco-friendly Credit Cards. Muzn digital banking capabilities have been significantly upgraded, with enhanced features on the mobile app and Corporate Internet Banking, aligning with conventional standards.

In line with this approach and to enrich our team with diverse expertise, we appointed Faisal Hamad Al Wahaibi as General Manager – Chief Retail and Digital Officer, and Ali Mousa Al Abri as General Manager – Chief Human Resources Officer, strengthening our senior management team, while we provided growth opportunities to Salah Abdullah Al Sharji, appointing him as General Manager – Chief Internal Auditor, and Anil Kumar as General Manager – Chief Corporate Banking Officer.

NBO has sustained its leadership in digital innovation with pioneering initiatives

Key Achievements

2024 was a year of success stories and milestones, highlighted by the signing of several pivotal agreements and Memoranda of Understanding (MoUs), along with the launch of digital initiatives aimed at achieving our strategic priorities.

We launched a hassle-free digital credit card application service. This innovative service enables both NBO and non-NBO customers to apply for credit cards through the app with enhanced convenience, meeting KYC requirements, eligibility criteria, and utilizing digital signatures in alignment with Central Bank of Oman guidelines.

Continuing our efforts to enhance digital customer touchpoints, we launched a new e-KYC service on the NBO app. This feature allows existing customers to update their Know Your Customer (KYC) details directly through the app, enhancing efficiency and user experience by eliminating the need for branch visits.

One more notable addition to our digital offerings was the introduction of Apple Pay, Samsung Wallet, and Garmin Pay, advanced digital payment solutions that elevate the payment experience by providing customers with innovative platforms enabling them to conduct secure, contactless transactions.

One of the key highlights was the launch of the first-of-its-kind Eid note dispensing machines across five locations in Oman, at NBO Head Office, Sohar Branch, New Salalah Branch, Ibra Branch, and Bahla Branch.

Supporting innovation and fostering partnerships with fintech, we collaborated with Paymob, UnionPay International, and PayByte to introduce advanced payment solutions, reshaping Oman's payment ecosystem and enhancing the digital payment landscape. Partnerships with PayMate India SPC, Vodafone Oman, and Zumr streamlined B2B payments, improved financial inclusion, and enhanced electronic payment services. Additionally, an MoU with Oman Data Park upgraded digital onboarding with advanced features, while collaboration with First Exchange integrated international remittance services into our API Banking Portal, providing secure and convenient solutions for customers.

Aligning with our commitment to meet the diverse financial needs of customers and support the Omani business landscape, we signed an agreement with Sohar Aluminium Co. LLC to provide a working capital facility for their operational requirements.

On the Investment side, we launched a new mutual fund product, the NBO Global Equity Fund, offering a unique opportunity to invest in large global developed and emerging equity markets while catering to the specific risk and return requirements of Omani investors.

NBO Muzn Islamic Banking

Muzn Islamic Banking continues to perform well with total income for the year 2024 growing by 19.5 per cent YoY. Gross Financing grew by 27.2 per cent YoY to reach OMR 358 million as at 31st December 2024 and customer deposits grew by 19.9 percent YoY to reach OMR 335 million as at 31st December 2024.

In 2024, NBO Muzn Islamic Banking reinforced its commitment to Shari'a compliance and digital innovation through the introduction of new products and solutions.

Muzn launched the Corporate Term Wakala Finance, a Shari'a-compliant solution that appoints the customer as an agent to manage the Bank's investment in their business, ensuring transparency and compliance. Furthermore, the Muzn Tijarah Account was introduced, providing corporates, SMEs, charities, and entrepreneurs a tiered profit-earning account that allows them to earn returns on excess cash reserves. Additionally, Muzn introduced a new Shari'a-compliant Medical Finance product, offering financing options for individuals seeking medical treatment within Oman or abroad.

Expanding to cover new categories, Muzn Islamic Banking introduced two premium banking segments: Privilege Banking and Priority Banking to offer personalized services catered to the specific needs of different income groups.

A wide range of eco-friendly, Shari'a-compliant credit cards was offered by Muzn, blending responsible banking with finance, and enabling customers to manage their finances while supporting environmental sustainability.

To enhance accessibility and convenience for its customers across the Sultanate, Muzn Islamic Banking celebrated the inauguration of a new branch in Ibra in North Al Sharqiyah Governorate.

NBO Muzn Islamic Banking reinforced its commitment to Shari'a compliance and digital innovation through the introduction of new products and solutions.

People and Learning & Development

We celebrated the selection of Maha Saud Al Raisi, Assistant General Manager – Head of Products, and Mustahil Ahmed Al Mamari, Assistant General Manager – Head of Strategy & Transformation to join the Royal Academy of Management's National CEO Programme, reflecting their strong leadership and dedication to excellence.

Likewise, three of our staff members completed prestigious Programmes: Nasr Al Saleh and Talal Al Shuaibi participated in the Etimad National Leadership Programme, and Maryam Al Tubi joined the Future Leaders Programme, offered by the Royal Academy of Management.

Further demonstrating our focus on leadership development, we celebrated the graduation of participants from the Tamayuz programme, an initiative that aims to build the Bank's future leaders, through equipping graduates with essential skills delivered after comprehensive coaching sessions, technical workshops, and leadership courses along with certification opportunities in different fields.

Going further and as part of our commitment to enhance collaboration and performance, we continued the Rawabit Programme, a key initiative that highlights our core values through engaging and interactive workshops. This year, 8 Rawabit workshops were held, involving 269 employees from various departments, providing a unique opportunity to reflect on our collective purpose, explore foundational values, and align them with our long-term goals.

We continued to invest in enhancing our workforce's skills and capabilities, delivering 325 programs over a total of 14,465 man-days. Additionally, 32 staff members successfully earned professional certifications.

It is worth noting that a total of 556 higher education students were enrolled in our Internship Programme, confirming our efforts to empower the local youth and equip them with the necessary skills needed for the future job market.

Community Values

We launched the NBO Fintech Accelerator Programme to support Oman's economic growth, innovation, and economic diversification by nurturing start-ups and promoting sustainable business growth. Aligned with Oman Vision 2040, the programme fosters the fintech sector, reduces reliance on traditional industries, and stimulates entrepreneurship through resources, mentorship, and financing. It also generates job opportunities and positions the region as a hub for innovation and technology, attracting foreign investment. Five startups were selected to join the programme: ThemarIP, Archon, Pyra.AI, Saree3, and InstaSpace.

To support financial literacy and streamline banking experiences, we actively took part in the Muscat Book Fair, collaborating with the Social Protection Fund to raise awareness of Childhood Benefits through the Social Protection Fund and how they could be facilitated through Children's Accounts.

We were pleased to sponsor the celebration of the International Day of Persons with Disabilities, organized by the Ministry of Social Development, reflecting our commitment to supporting initiatives that empower all members of society.

Further supporting social security families, we launched our annual CSR campaign, 'Shahr Al Atta,' featuring various initiatives designed to positively impact the community and contribute to national growth. The campaign began with an internal staff Bake Sale, promoting generosity and community engagement during Ramadan.

In addition, we distributed food hampers to low-income families across the country and partnered with OCA to celebrate the joyous Qaranqasho occasion with underprivileged children. Our dedication extends beyond Ramadan, where we also contributed to the Muscat Charity Team's Eid Event and hosted our annual SMEs Eid Marketplace Exhibition at our head office. This event celebrated Eid and provided businesses with an opportunity to showcase their products. We also contributed to the "Eid Clothing" initiative of the Muscat Charity Team as part of our social responsibility efforts.

Global Recognition

We are honored to receive The Elite Quality Recognition Award from our partner Bank J.P. Morgan for outstanding achievement and efficiency in processing US Dollar payments, a testament to our commitment to enhancing digital capabilities for seamless international transactions. Additionally, we have been named the Best Performing Company in the Large Capital category at the Alam al-Iktisaad Wal A'mal (AIWA) Awards, recognizing our dedication to delivering innovative, customer-centric solutions.

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 Financial Services 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.

Thank you

Amal Suhail bahwan Al Mukhaini
Chairperson

Board of Directors

Ms. Amal Suhail Bahwan Al Mukhaini

Chairperson

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

Ms. Amal Suhail Bahwan is currently Vice-Chairperson of Suhail bahwan group holding company, with extensive experience in managing the companies within the Suhail Bahwan Group.

She also is the Chairperson of the Board of Directors of National Bank of Oman SAOG., Al Jazeera Steel Products Co SAOG, Al Afia Healthcare Development and Investment Co SAOC, and DHL Global Forwarding Co. LLC

Also, she serves as a member of the Board Members of the following companies: Oman Oil Marketing Co SAOG and National Pharmaceutical Industries SAOC. In addition, she serves as a member of Board of Trustees of "Silatech Institution". She is also a Board Member of the Centre for Social Investment and a member of the Consultative Committee for the Children's Association.

She is the first Omani lady whose photo was published on the cover of Forbes Middle East in 2017. She was classified within the list of the most influential women in the Middle East for many consecutive years from 2017 to 2024.

She holds a Master Degree in Administration and BA in Education from Sultan Qaboos University.

Sheikh Abdulla Bin Ali Bin Jabor Al Thani

Deputy Chairperson

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). He 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.

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 possesses over 20 years of experience in investment, asset management, business development, and the financial sector.

Mr. Al Wahaibi also serves on the boards of Renaissance Services Company, Oman Flour Mills Company, Oman International Development and Investment Company (Ominvest), and Oman Real Estate Fund.

He holds a Master of Business Administration degree with a specialization in Finance. Additionally, he is a Chartered Financial Analyst (CFA) charter holder, a Chartered Alternative Investment Analyst (CAIA) charter holder, and holds a Certificate in Investment Performance Measurement (CIPM).

Ms. Najat Ali Al Lawati

Director

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

Member of the National Bank's Board of Directors since March 2017. She holds a bachelor's degree in accounting and has over twenty-eight years of professional experience spanning various fields, including accounting, financial management, investment management, and auditing. Her career is distinguished by active participation in numerous specialized training courses in accounting, financial management, investment management, and auditing, which have significantly enhanced her practical expertise.

Currently, she works as the General Manager of Finance and Investment Performance Monitoring at the Social Protection Fund in the Sultanate of Oman, where she plays a pivotal role in enhancing financial performance efficiency.

Additionally, Ms. Najat has contributed through her membership in several boards of directors of public and private companies. She is currently a member of the boards of directors of Oman International Development and Investment Company (Ominvest), Oman Real Estate Fund, and Oman Cement Company.

Mr. Mohammed Ismail Mandani Al Emadi

Director

Member of the Credit Committee of the Board (CCB)

Has been a Director of the Bank since November 2014. He is also a member of the Board for The Commercial Bank (PSQC) and 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 from 1983 to 2006, including Head of Banking, Operations, Commercial Services, and Risk Management, and served as Deputy General Manager from 2004 to 2007. He also served as Chief Executive Officer of Qatar Real Estate Investment Company QSC from 2008 to 2011 and as its Director.

Mr. Al Emadi graduated from Holy Names University, California, with a BSc in Business Administration & Economics. He was a former Member of the Board of Governors at Sidra Medicine and the former Managing Director of Qatar Cinema & Film Distribution Co. in Qatar. Additionally, he served as a former Director for Mannai Corporation, Qatar Shipping Co., and Doha Securities Market.

Mr. Fahad Abdulrahman Badar

Director

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

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 24 years. Prior to his current role as EGM, Chief Wholesale and International Banking Officer, 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)

Mr. Abraham 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 bin Said bin Mohamed Al Tai

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.

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), National Bank of Oman SAOG, and ASAS Oman.

Mr. Nabil Hamad Al Mahroqui

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 Hilal Al Habsi is a distinguished finance and investment professional with an impressive career spanning over two decades in Oman's financial landscape. Currently serving as an Investment Director at the Oman Investment Authority (OIA).

Al Habsi's professional journey includes significant roles at prestigious institutions such as the Oman Investment Fund (OIF) and the Ministry of Defense Pension Fund, where he held various senior positions in investment and finance. He has MBA and a Bachelor's degree in Finance, complemented by his certification as a professional accountant.

Mr. Al Habsi has participated in specialized executive management programs at world-renowned institutions including IMD, Columbia Business School, and Cambridge University Judge Business School. Additionally, he participated in the National Leadership Program organized by the Royal Academy of Management.

Al Habsi serves as a Board member at Salalah Mills SAOG. His extensive experience has equipped him with in-depth knowledge of global financial markets and investments, making him a respected figure in the Omani financial sector.

With over 22 years of industry experience, Mr. Said Al Habsi continues to be a pivotal contributor to Oman's investment and financial sector, leveraging his expertise to drive strategic growth and development.

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 39 years of professional experience in manufacturing and construction industries. He is presently the Managing Director – Finance & Corporate Services of Bahwan Engineering Group.

During his 30 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 Operating Officer

Sulaiman Said Al Lamki
General Manager
Chief Risk Officer

Srinivasaraghava Varadachari Giridhar
General Manager
Chief Financial Officer

Faisal Al Wahaibi
General Manager
Chief Retail & Digital Banking Officer

Dr. Ali Mousa Al Abri
General Manager
Chief Human Resources Officer

Pullattu Radhakrishnan Anil Kumar
General Manager
Chief Corporate Banking Officer

Salah Abdullah Al Sharji
General Manager
Chief Internal Auditor

Abdul Karim Zahran Zahir Al Hinai
Deputy General Manager
Chief Information Officer

Abdullah Mohamed Al Jabri*
Deputy General Manager
Head of Asset Quality Management

Dr. Issam Mohsin Al Balushi
Deputy General Manager
Chief Compliance Officer

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

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

*Retired in 2024.

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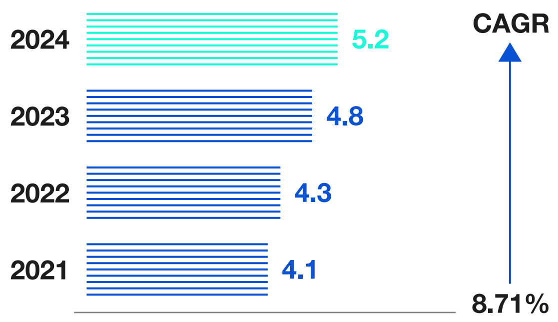
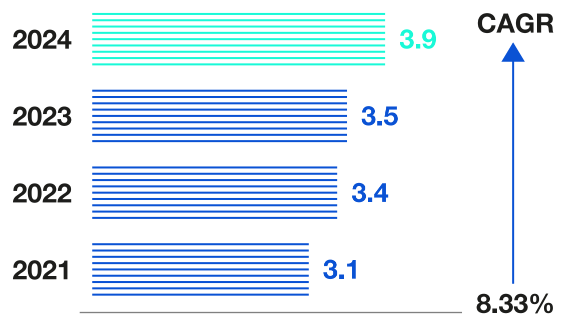
Management Discussion and Analysis Report 2024

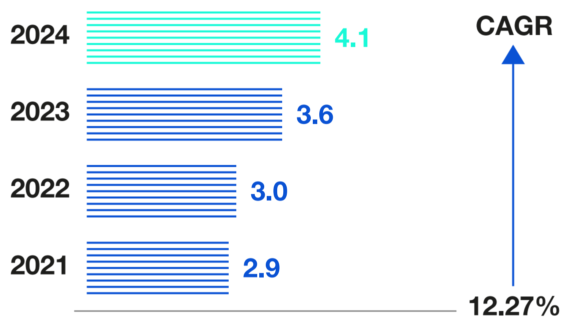
TOTAL ASSETS (RO Bn)



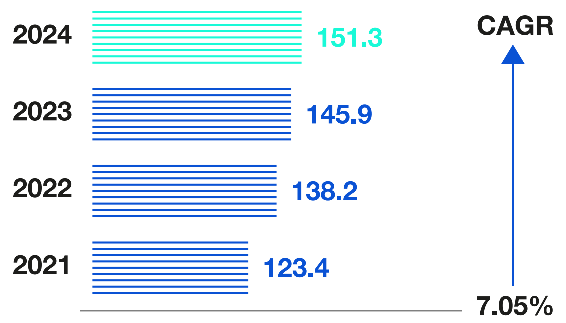
NET LOANS & ADVANCES (RO Bn)



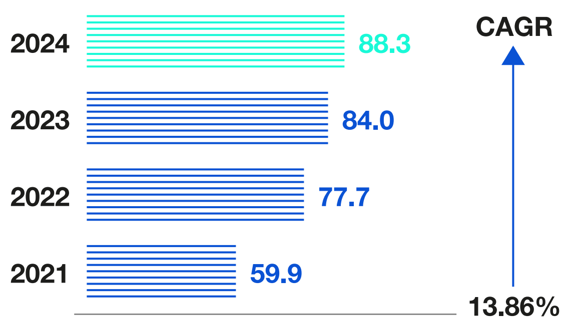
CUSTOMER DEPOSITS (RO Bn)



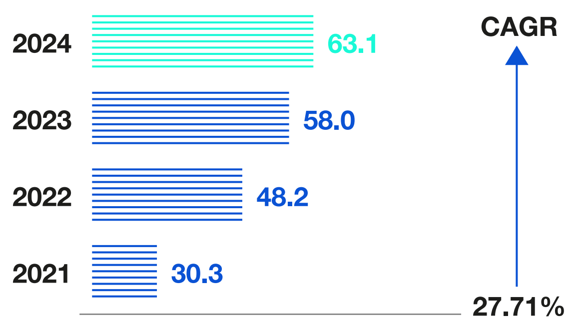
OPERATING INCOME (RO Mn)



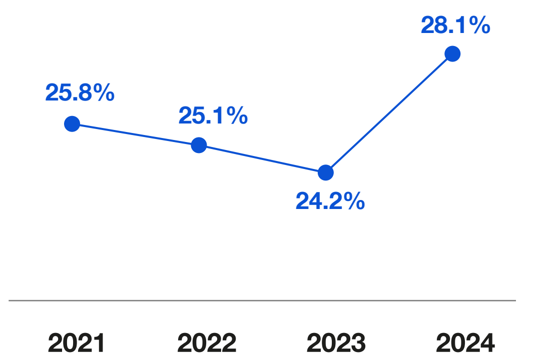
OPERATING PROFIT (RO Mn)



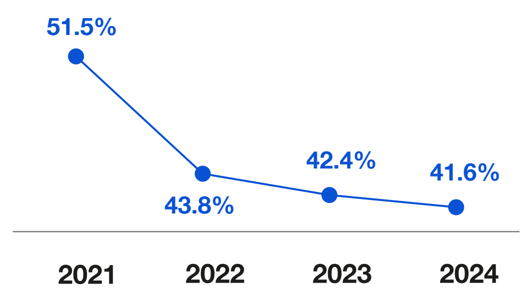
NET PROFIT (RO Mn)



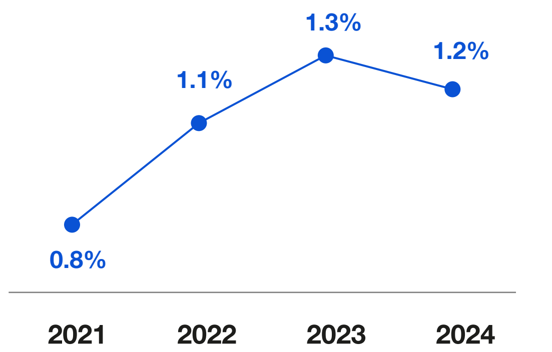
NON-INTEREST INCOME/ OPERATING INCOME



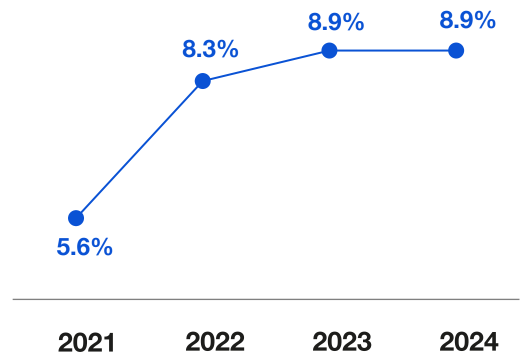
COST TO INCOME



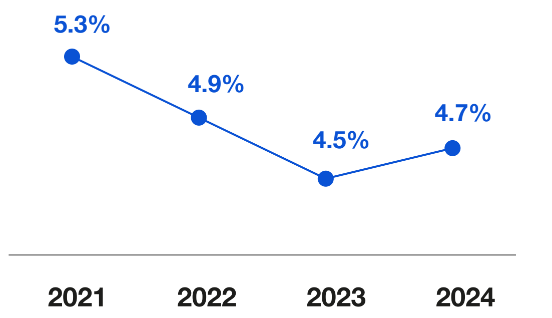
RETURN ON ASSETS



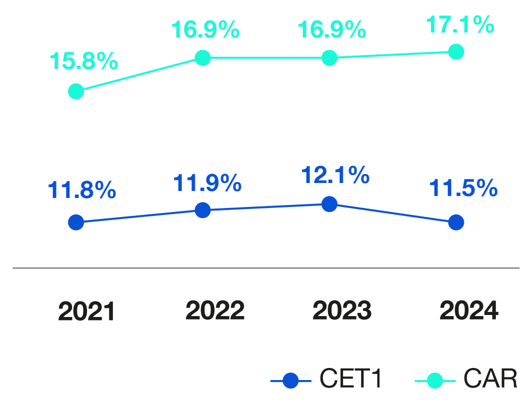
RETURN ON EQUITY



NON-PERFORMING LOANS RATIO



CORE EQUITY TIER 1 & CAPITAL ADEQUACY RATIO



Management Discussion and Analysis Report 2024

Overview

In 2024, NBO delivered strong financial and operating performance, recording the highest net profit in its 52-year history. We sustained growth across all key operating segments, performed strongly across key performance indicators, and made substantial progress toward our five-year strategy, "Return to Prominence."

We continued to broaden our range of retail and corporate banking offerings and market-leading digital capabilities to both maintain competitiveness and meet our customers' evolving expectations. We achieved particularly strong growth in our Muzn Islamic Banking operations, aligning this segment more closely with our core brand, expanding the range of Shari'a compliant offerings for retail and business customers, and attracting a substantial increase in customer deposits.

We have continued to build a robust and secure base, putting in place the talent, resources, technology and competitive offerings that will position the bank as the bank of choice in Oman for many years to come.

Operating Environment

Oman's economy continued its steady growth and provided a stable operating environment for the banking sector. The Government maintained its proactive and positive approach in managing the Sultanate's economy, both to expand non-oil related sectors and to drive fiscal discipline.

These concerted efforts and the impact they have had on the economy were recognised with an upgrade from international credit rating agency, Standard & Poor's. Oman's sovereign credit rating was upgraded to BBB- with a stable outlook. This upgrade returned the Sultanate and its key institutions to investment-grade status, providing a more robust environment for investors and lenders and underpinning confidence in the Omani economy.

Challenges remain, of course. Elevated interest rates prevailing over the last three years have driven a sustained increase in cost of funds and a behavioural shift by customers. A greater proportion of funds are being directed towards higher interest-bearing term deposits from CASA (Current Account/Savings Account) products.

For the banking sector, a forward-thinking regulatory approach from the Central Bank and Ministry of Finance is accelerating digitalization and the adoption of global technology-driven business practices, creating rapid innovation and opportunities for leading players like NBO.

Financial & Operating Performance

In 2024, NBO recorded outstanding performance across a range of key financial metrics, including strong growth in fee income, customer deposits and loans and advances, coupled with prudent cost management, resulting in achievement of record net profit and demonstrating the highly effective execution of our strategic plan.

Net Profit for the year rose to OMR 63.06 million, compared to OMR 58.03 million in 2023, an increase of 8.7 percent.

Total Operating Income for the year 2024 increased to OMR 151.33 million, from OMR 145.87 million last year, reflecting a 3.7 percent increase aided by a strong growth of 20.4 percent in Fee Income.

While continuing to invest in our people, technology and infrastructure, operating expenses were optimally managed, reflecting an increase of 1.7 per over last year. This resulted in a fourth year of consecutive improvement in our cost to income ratio to 41.6 per cent.

We continued to improve both the scale and quality of our assets. Total assets at the end of 2024 were OMR 5.24 billion, an increase of 8.7 percent compared to the end of 2023. We achieved a further year of strong growth in the volume of customer deposits, exceeding market benchmarks and reaching OMR 4.13 billion, a 14.4 percent increase over 2023. The growth achieved in loans was also at healthy levels with gross loans and advances of OMR 4.09 billion, an increase of 11.7 percent over 2023.

At the same time, our effective risk management practices, coupled with careful segment selection focused on government-related entities (GRE) and better recoveries, have resulted in net impairment of OMR 14.14 million for the year 2024 compared to OMR 15.70 million for the year 2023.

The Bank's Core Equity and Total Capital Adequacy Ratio remained comfortably above regulatory minimum stipulated by Central Bank of Oman at 11.5 percent and 17.1 percent respectively, demonstrating strong levels of financial health and stability. Bank's prudential ratios under Basel III norms such as Liquid coverage ratios and Net Stable Funding ratios were at 277.6 per cent and 118.7 per cent respectively.

Retail & Digital Banking

Our retail business is focused on maintaining our competitive edge in serving and empowering customers across the range of retail banking segments. We led the market in introducing new digital solutions across our product offerings. This enabled the introduction of contactless payments via mobile devices and other digital enhancements designed to advance fintech within the Omani economy while continuing to underpin security and fraud prevention. We also worked closely with a number of commercial partners to deliver attractive promotions and benefits to account holders.

In a major step forward in delivering our commitment to digital banking and innovation, NBO introduced secure contactless payment facilities via three of the leading mobile technology platforms. We worked closely with Apple, Samsung, and Garmin to enable NBO and Muzn Islamic Banking customers to add their debit and credit cards to the Apple Pay, Samsung Wallet, and Garmin Pay applications on their range of mobile devices. Utilizing the secure systems and verification steps built into the respective platforms, our customers are able to utilize the advanced digital solutions and increased convenience that they offer to make their everyday transactions faster and easier.

Several enhancements were made to increase the accessibility of our services. We introduced Oman's first digital credit card application facility, which allows both existing and new NBO customers to apply for a credit card utilizing digital signatures, in alignment with the Central Bank of Oman guidelines. We also launched a new facility on our NBO app to enable customers to quickly and conveniently verify and update the full range of their personal details, both to enable us to optimize support for their needs and to fulfill the Central Bank's Know Your Customer compliance requirements. Additionally, we introduced the Badeel Prepaid Top-Up option to NBO's Rewards Program. This new feature allows customers to utilize their earned reward points to fund their Badeel Travel Prepaid Card, making it easier for them to access and use their rewards in a convenient and user-friendly manner.

One of the key highlights was the launch of the first-of-its-kind Eid note dispensing machines across five locations in Oman, further demonstrating our commitment to providing a seamless digital banking experience. The machines were introduced at NBO Head Office, Sohar Branch, New Salalah Branch, Ibra Branch, and Bahla Branch. This innovative service was designed to address the challenges individuals face in obtaining Eidiya notes during Eid.

In a further expansion of our account offerings, we launched an account through our NBO app designed specifically for young people aged between 13 and 17 years. The account offers a range of tailor-made services and features designed to cater to the specific needs of young individuals, including debit cards, withdrawal and transfer facilities, and access for both the account holder and their parents. As well as enabling transparency and parental control over teenagers' finances, the new account serves as a vital tool that fosters financial responsibility and independence among young Omanis and expatriates.

A number of campaigns and partnerships launched in 2024 brought competitive promotions and benefits to our customers. Specific new customer and credit card promotions, together with collaborations with Muscat Duty Free, Talabat, Shell, Oman Oil, Lulu,

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and Landmark, provided attractive cashback and discount offers, and enhanced NBO rewards opportunities. A new partnership with Al Raffah Hospital offers NBO customers and employees an annual essential health check-up as well as a range of discounts and easy payment options on medical services provided at Aster hospital and clinic facilities.

Committed to fostering digital banking within the community, we announced an exclusive promotion for our loyal customers who engage in various services through the NBO App. Customers had the opportunity to win one of 20 iPhone 15 devices.

Moreover, we offered an exclusive 15 per cent cashback for new customers who choose to transfer their monthly salary to the Bank. This exciting campaign during the Holy Month of Ramadan was available to all individuals with a monthly salary of OMR 600 or above.

During Ramadan, we introduced several reward schemes to acknowledge customer loyalty and add value to their daily transactions. We hosted our Car Carnival Weekend, a two-day event held at NBO's head office, providing a vibrant and dynamic platform for automotive enthusiasts and potential buyers to explore a diverse range of new and pre-owned cars. The event also served as a unique platform to explore comprehensive car loans and car insurance offered by NBO.

In a move to enrich the customer experience, we partnered with Landmark Group to allow customers to convert their NBO Rewards Program points into Shukran's. This collaboration enables customers to redeem their rewards across a wide range of 25 Landmark Group brands, reflecting our efforts to offer greater value and more diverse reward options.

Reaffirming our commitment to providing personalized banking experiences and fostering strong relationships with our high-net-worth clients, we hosted three exclusive dinner for our Sadara Priority Banking clients.

Adding value to our customers, we held our highly anticipated Market Outlook event for 2024. Distinguished speakers provided valuable insights into current market dynamics and introduced private debt, a compelling facet within the alternative investment landscape for the current year.

We continue to strengthen our strategic partnerships to drive digital innovation and enhance customer experience. This year, we have focused on enhancing digital onboarding, expanding contactless payment solutions, and streamlining international remittances.

NBO is the first bank in Oman to enable UnionPay acceptance across all its terminals, introducing contactless mobile payments in collaboration with UnionPay International. Cardholders can now make

payments using their mobile wallets, such as Apple Pay, mobile banking apps, or contactless cards.

In partnership with Oman Data Park, a leading tech solutions provider in the Sultanate, we are enhancing digital customer onboarding with advanced features, including seamless integration, face matching, and liveliness checks.

Additionally, we established a crucial alliance with HBL Bank, Pakistan, in a strategic move to elevate the customer experience. Beginning in March, the Bank introduced instant fund transfers to Pakistan at competitive exchange rates through a direct corridor partnership with HBL. This collaboration aimed to streamline international remittances to Pakistan, enabling a more efficient and timely service.

We are committed to customer satisfaction, security, and operational excellence. The Bank successfully implemented advanced Risk Management and Fraud Risk Management systems, enhancing our ability to safeguard customer data and ensure secure transactions.

Corporate Banking

NBO continued to support its corporate customers, with both banking and advisory services as well as the development of new technology solutions designed to facilitate more efficient commerce and the growth of small and medium-sized enterprises in line with Oman's 2040 Vision.

Beyond ensuring access to market-leading banking services and technology, we continued to support our broad range of business customers through sessions such as our Asian Market's Influence on Global Supply Chains. This highly anticipated event featured leading experts in the field, providing insights into the latest economic trends and dynamics. The session facilitated networking among CFOs and demonstrated NBO's commitment to building business success and delivering value-adding support for corporate clients. We also organised a workshop on our Online Trade Portal at the NBO Head Office, featuring a live demonstration aimed at enhancing the overall trade experience of corporate clients and facilitating their onboarding process.

To further enhance our services, we provided a Trade Portal to key customers, enabling them to easily request and send letters of credit and guarantee. Furthermore, we successfully implemented a B2B system for the Social Protection Fund benefits transfer transactions, which went live with a successful benefits payment for children, retirees, and the elderly.

We announced a number of collaborative arrangements during the year that together will make a significant difference in developing the digital payments landscape in which our corporate customers operate while maintaining the highest standards of security within the Central Bank's regulatory framework. These partnerships also underscore NBO's role as a leading partner in the fintech ecosystem, showcasing the strength of the NBO team in helping fintech providers thrive while supporting our business customers.

Corporate customers now have access to more convenient and secure payment options through PayByte, an Oman-based digital payment solutions provider (PSP). PayByte operates as a payment aggregator, offering a comprehensive range of digital payment services, including an online invoice system, Payment Gateway, QR Code solutions, and a Marketplace platform - accessible via its website and mobile applications on both iOS and Android.

SMEs in Oman can now benefit from seamless online and offline payment solutions, as NBO provides Paymob with essential digital infrastructure, including payment gateway integration, POS terminals, and corporate Internet banking. This collaboration reinforces our commitment to empowering thousands of micro, small, and medium-sized businesses.

Supplier payments have been streamlined for corporate and SME clients, who can now utilise Visa Business Credit Cards via PayMate. This eliminates the need for suppliers to have a dedicated payment system, with funds transferred directly into their bank accounts through the NBO Visa Business Credit Card.

Financial inclusion efforts have been further enhanced through an agreement with Zumr, ensuring access to advanced banking services for various segments of society. Leveraging our expertise in digital banking solutions, we will provide Zumr with essential services such as Corporate Internet Banking, facilitating seamless day-to-day operations.

Agreement was reached with Sohar Aluminium for NBO to provide a working capital facility. The facility will substantially elevate Sohar Aluminium's operational capabilities. This strategic partnership

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underscores our commitment to strengthening connections with pivotal industry players, fostering economic growth, and solidifying our position as the preferred financial partner in Oman.

We successfully activated Export Trade Finance handling and sight Letter of Credit discounting for a major manufacturing unit. In Q2, we handled a discounted Letter of Credit. This expansion demonstrates our commitment to supporting our clients' international export trade activities. Additionally, we provided a convenient payment gateway solution to Al Maha Petroleum, enabling their customers to easily fund Al Maha cards.

Also, we concluded a large private sector deal through the refinancing of Al Suwadi Power SAOG and Al Batinah Power SAOG. These refinancing deals added value to the companies and their shareholders.

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.

We continued the successful execution of comprehensive training programs to empower employees across the Government, Semi-Government, and Private Sectors throughout the Sultanate. This ongoing initiative has provided professional development and skill enhancement opportunities for both Public Sector and Private employees, improving financial knowledge and offering valuable insights into the banking sector.

In partnership with ROP, NBO activated real-time traffic fines payment feature in the NBO app and Corporate Internet Banking.

NBO partnered with the Royal Oman Police to conduct workshops on combating financial fraud. These workshops, held at NBO's Head Office, aimed to raise awareness among the public and educate attendees on identifying and mitigating financial crimes. By empowering individuals with essential knowledge, NBO reinforces its role in promoting financial literacy and security within the community.

Investment Banking

On the Investment side, we launched a new mutual fund product, the NBO Global Equity Fund. This product was introduced through a public offering process. It is open to both institutional and retail customers, offering a unique opportunity to invest in large global developed and emerging equity markets

while maintaining local management control and catering to the specific risk and return requirements of Omani investors.

We also launched the NBO Money Market Fund with the aim of generating returns while preserving capital and maintaining daily liquidity. It invests in low-risk, liquid fixed-income instruments, including money market securities issued by Omani, regional, and international banks, governments, GREs, and other entities. Open to both Omani and non-Omani investors.

Muzn Islamic Banking

The demand for Shari'a-compliant banking has been growing rapidly both globally and regionally, and 2024 marked a significant milestone for our Muzn Islamic Banking business.

Throughout the year, we have expanded Muzn's offerings to align them with the services available to mainstream NBO customers. Since its relaunch, under the oversight of the dedicated Muzn Supervisory Board, Muzn has gained strong momentum, with substantial growth in customer numbers, deposits, and its contribution to NBO's overall performance.

New Shari'a-compliant financing solutions were also launched, including options for medical and travel expenses, as well as a dedicated Haj travel financing solution developed in collaboration with the Oman Ministry of Endowments and Religious Affairs. Additionally, Muzn introduced the Flexi Wakala Saving Account, offering tier-based profit rates of up to 3 per cent, providing a superior return on investment compared to the standard Flexi Wakala account.

Muzn also expanded its digital capabilities by introducing digital onboarding for accounts and enabling Apple Pay for its customers. Beyond digital advancements, Muzn reinforced its physical presence with the inauguration of a new branch in Ibra, North A'Sharqiyah Governorate. This strategic expansion enhances accessibility and convenience for customers across the Sultanate, supporting their financial aspirations while adhering to Islamic principles.

New Shari'a-compliant financing solutions were also launched, including options for medical and travel expenses, as well as a dedicated Haj travel financing solution developed in collaboration with the Oman Ministry of Awqaf. Additionally, Muzn introduced the Flexi Wakala Saving Account, offering tier-based profit rates of up to 3 per cent, providing a superior return on investment compared to the standard Flexi Wakala account.

In a move toward sustainability and innovation, Muzn launched a range of eco-friendly, Shari'a-compliant

credit cards, integrating responsible banking with ethical finance to support environmental sustainability.

For commercial customers, Muzn has introduced Tijarah deposit accounts for businesses and organizations, offering a tailored solution for corporates, SMEs, charity organizations, and entrepreneurs to maximize returns on their excess cash reserves. Additionally, Muzn provides a Corporate Term Wakala Finance solution, enabling businesses to manage short-term working capital needs, including cash flow, raw material purchases, bill and invoice discounting, and contractor financing.

Muzn further enhanced trade finance services with the launch of a comprehensive Online Trade Portal, streamlining all trade finance transactions into a single, user-friendly platform. This 24/7 service enables customers to conduct a suite of trade finance transactions, including Letter of Credit (LC) at Sight, Usance LC, Murabaha Under Sight LCs, Murabaha under Usance LCs, Murabaha under Documentary Collections, Islamic alternate to Export and Local Bill Discounting, and Guarantees, all with Straight Through Processing.

People

We continued investing in our workforce's growth, delivering 325 training programs totaling 14,465 man-days, with 32 employees successfully earning professional certifications. Supporting future talent, we provided 556 interns with hands-on experience across various NBO departments in 2024.

Our Omanisation efforts remain strong, reaching 93 per cent, of which 41 per cent are female. Notably, all employees in our branches are Omani.

We celebrated the selection of Maha Saud Al Raisi, Assistant General Manager – Head of Products, and Mustahil Ahmed Al Mamari, Assistant General Manager – Head of Strategy and Transformation to join the Royal Academy of Management's National CEO Programme, reflecting their strong leadership and dedication to excellence. Likewise, three of our staff members completed prestigious Programmes: Nasr Al Saleh and Talal Al Shuaibi participated in the Etimad National Leadership Programme, and Maryam Al Tubi joined the Future Leaders Programme, offered by the Royal Academy of Management.

Reinforcing our commitment to leadership development, 40 participants graduated from our Tamayuz program, which equips future NBO leaders with essential skills through personal effectiveness sessions, technical workshops, and leadership courses. Meanwhile, our Rawabit Programme continued as a key initiative that reinforces our core values through engaging and interactive workshops. With 269 employees participating, the program provides a unique opportunity to reflect on our

collective purpose, explore foundational values, and align them with our long-term goals.

We continue advancing our 'Dhiyafa Series,' focusing on customer service excellence through branch sessions, awareness videos, and employee recognition initiatives. By fostering a culture of outstanding and sustainable customer service, we ensure consistent service standards while celebrating employees for their dedication and contributions.

Beyond professional growth, employee well-being remained a priority, with a stress management session held in collaboration with Al Hayat International Hospital, providing valuable coping strategies. Moreover, we organized a successful health session featuring a specialist in endocrinology as part of our ongoing commitment to prioritizing staff well-being. Additionally, we fostered a vibrant workplace culture. Our annual Kids Carnival, a cherished tradition since 2017, engaged families in interactive workshops and cultural activities. We also hosted an E-Gaming Tournament, bringing together employees from different departments in a friendly competition.

Corporate Responsibility

Our own program to support fintech entrepreneurs, the first of its kind in the banking sector, the NBO Fintech Accelerator. The NBO Fintech Accelerator is designed to nurture new fintech ideas and start-ups, aiming to transform them into successful enterprises that contribute to the diversification of the Omani economy with strong, sustainable strategies and high growth potential. As part of the program, we organised the NBO Hackathon, bringing together Oman's brightest fintech innovators to develop creative solutions and showcase their entrepreneurial skills. The event was a resounding success, attracting over 300 applications, from which 90 applicants were shortlisted for the 48-hour competition.

To support financial literacy and streamline banking experiences, NBO and Muzn Islamic Banking actively participated in the Muscat Book Fair in collaboration with the Social Protection Fund. The initiative raised awareness of Childhood Benefits through the Social Protection Fund and how they could be facilitated through Children's Accounts.

As a testament to our commitment to supporting the less privileged and fostering a spirit of giving, we launched our annual Corporate Social Responsibility campaign, Shahr Al Atta. This program includes a series of initiatives aimed at making a positive impact on the community and contributing to national growth. Shahr Al Atta began with an internal staff event - a delightful bake sale - which set the stage for a season of generosity and community engagement, resonating with the spirit of compassion during the Holy Month of Ramadan.

We also distributed food hampers to low-income families across the country and collaborated with the Oman Cancer Association to celebrate Qaranqasho, a joyous occasion dedicated to bringing happiness to less fortunate children. Through various activities and partnerships, we aimed to create memorable moments for these children and spread the joy of the season.

To mark this year's Eid celebrations, we hosted our annual SMEs Eid Marketplace Exhibition at our head office. The event provided an ideal platform for businesses to showcase their products - including handcrafted jewelry, perfumes, fashion, unique homeware, and food - while visitors had the chance to purchase their Eid essentials and support local businesses. Additionally, we were pleased to contribute to the Muscat Charity Team's Eid Clothing initiative as part of our CSR commitment.

We took a step forward in serving our community by hosting a blood donation drive in collaboration with the blood bank. Held at our premises, the initiative received an overwhelming response from both employees and community members, who came together in a spirit of generosity and compassion.

Local & Global Recognition

NBO has been named Best Bank for Digital Banking Services in Oman 2024 by the Global Banking and Finance Review. This prestigious accolade highlights NBO's commitment to delivering pioneering digital banking solutions and underscores its dedication to enhancing customer experiences through innovation, advanced technologies, and a customer-centric approach.

We were pleased to receive The Elite Quality Recognition Award from our partner bank J.P. Morgan, for outstanding achievement and efficiency in processing US Dollar payments. This accolade reflects our commitment to continuous improvement of our digital capabilities to provide seamless access to efficient international transactions, unlocking opportunities for our customers.

Recognizing our commitment to excellence in all operations, we have been named the Best Performing Company in the Large Capital category at the Alam al-Iktisaad Wal A'mal (AIWA) Awards. This award reflects our dedication to delivering innovative, customer-centric solutions and continuously pushing the boundaries of excellence in the financial sector.

Outlook 2025 & Beyond

NBO commenced its journey to "Return to Prominence" in 2021 with a vision to place NBO back into a prominent position where the Bank is revered within & beyond Oman. This strategy is based on three key priorities; to safeguard the Bank's financial well-being; to create value for shareholders,

partners and other stakeholders; and to sustain our business through a strong and clear brand and effective development and utilisation of our digital and human resources.

After four years of concerted effort, and driven by our purpose and values, we have made excellent progress across all our areas of focus. In doing so, we have regained and increased our market share while significantly improving profitability and financial performance.

In 2025 we will refresh our strategy and recalibrate our objectives taking account of both the progress we have made and the emerging trends shaping the operating landscape. These trends include the acceleration of digital and open banking and increasing demand for Islamic and transaction banking services. New entrants are being attracted by the opportunities generated by market demand, changing consumer preferences and progressive regulatory developments being implemented by the Central Bank of Oman. In addition, we have already developed a clear roadmap to integrate ESG policies and practices into our decision making and operations, and this will be a key feature of our renewed strategy.

In terms of the economic environment looking forward, we share the confidence of international analysts and commentators in their positive assessment of Oman's continued prospects for steady economic growth. This is notwithstanding a range of macroeconomic uncertainties, not least the outlook for oil prices and the impact of likely policy changes, including on interest rates set by the Federal Reserve, emerging from the change in the US administration.

Taking this into account, along with the specific trends emerging in the banking sector, in 2025 we will remain focused on executing our strategic priorities at pace.

We are confident that we are strongly positioned to maintain and build on our market leadership and continue to deliver outstanding products and services for our customers and value for our investors, while making a major contribution to the attainment of Oman's 2040 Vision.

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Corporate Governance Report 2024

Agreed-upon procedures report on factual findings in connection with the Corporate Governance report 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 the directors of National Bank of Oman SAOG (the "Bank") in determining whether their Corporate Governance Report is in compliance with the Code of Corporate Governance (the "Code") of the Financial Services Authority of the Sultanate of Oman ("FSA"), as prescribed in the FSA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code") and may not be suitable for another purpose.

Responsibilities of the directors

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

Our responsibilities

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

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

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

Professional Ethics and Quality Control

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

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

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Agreed-upon procedures report on factual findings in connection with the Corporate Governance report to the board of Directors of National Bank of Oman SAOG (continued)

Procedures and Findings

We have performed the procedures described below, which were agreed with the Bank in the terms of our engagement letter dated 18 November 2024, on the compliance of the Report with the Code for the year ended 31 December 2024.

S. No	Procedures	Findings
(a)	We obtained the Corporate Governance Report issued by the Board of Directors and compared its contents to the minimum requirements of the FSA as set out in Annexure 3 of the Code.	No exception noted
(b)	We obtained from the Bank details of the areas of non-compliance with the Code identified by the Bank, as set out in its Board minutes and in its non-compliance checklist, and compared these with those included in the Report in the section "Details of non-compliance and penalties, together with the reasons for such non-compliance for the year ended 31 December 2024". Additionally, we obtained written representations from the directors that there were no other areas of non-compliance with the Code for the year ended 31 December 2024, of which they were aware.	No exception noted

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

This report relates only to the accompanying Corporate Governance Report of the Bank to be included in its annual report for the year ended 31 December 2024 and does not extend to the Bank's consolidated financial statements taken as a whole.

PricewaterhouseCoopers

C.R. No 1230865 PricewaterhouseCoopers LLC

Muscat, Sultanate of Oman
04 March 2025

Corporate Governance Report 2024

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 Financial Services Authority (FSA) 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 and grow stakeholder value and trust and maintain a high level of business ethics.

In accordance with the directives of the FSA 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 the approved 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, FSA, 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.

Information given to the Board

The Directors are given appropriate and timely information so that 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 whose principal place of business is the Sultanate of Oman or is a Chairman of more than two such public joint stock 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	Role	Category of the Director*
Ms. Amal Suhail Bahwan Al Mukhaini	Chairperson	NEX-NIND
Sheikh Abdulla Bin Ali Bin Jabor Al Thani	Deputy Chairperson	NEX-NIND
Mr. Hamad Mohammad Al Wahaibi	Director	NEX-IND
Mr. Mohammed Ismail Mandani Al Emadi	Director	NEX-NIND
Brigadier Jamal Said Mohamed Al Tai	Director	NEX-IND
Mr. Fahad Abdulrahman Badar	Director	NEX-NIND
Ms. Najat Ali Al Lawati	Director	NEX-IND
Mr. Joseph Abraham	Director	NEX-NIND
Mr. Said Hilal Al Habsi	Director	NEX-IND
Mr. Padmanabhan Ananthan	Director	NEX-NIND
Mr. Nabil Hamad Al Mahrouqi	Director	NEX-IND

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

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

All Directors represent themselves, in accordance with the Commercial Companies Law.

Table (2)

Name of the Director	Other Board Committees Membership*	No. of other S.A.O.G. Boards memberships	No. of Board meetings attended	Attended last AGM on 27th March 2024
Ms. Amal Suhail Bahwan Al Mukhaini Chairperson	ENRC	2	7	Yes
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 Mohammad Al Wahaibi	ENRC/CCB	3	7	Yes
Brigadier Jamal Said Mohamed Al Tai	BAC	1	7	Yes
Mr. Fahad Abdulrahman Badar	BAC/BRCC	NIL	7	Yes
Ms. Najat Ali Al Lawati	ENRC/CCB	2	6	Yes
Mr. Joseph Abraham	ENRC/CCB	NIL	6 (1 by proxy)	Yes
Mr. Said Hilal Al Habsi	BAC/BRCC	1	5	Yes
Mr. Padmanabhan Ananthan	BAC/BRCC	NIL	5	Yes
Mr. Nabil Hamad Al Mahrouqi	BRCC/ENRC/ BAC	3	7	Yes

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

Number and dates of Board meetings

NBO held 7 Board meetings during 2024: January 30, April 30, June 11, July 30, September 24-25, October 30, and December 09. The longest interval between two meetings was 91 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 2024 was OMR 2,202,255/-.

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 2024 is OMR 300,000 subject to the Annual General Meeting approval on March 18, 2025.

Corporate Governance

The details of the sitting fees paid or accrued for payment during 2024 are as follows:

Table (3)

Name of Director	Total fees OMR*
Ms. Amal Suhail Bahwan Al Mukhaini	8,850
Sheikh Abdulla Bin Ali Bin Jabor Al Thani	8,850
Mr. Mohammed Ismail Mandani Al Emadi	10,000
Mr. Hamad Mohammad Al Wahaibi	10,000
Mr. Fahad Abdulrahman Badar	10,000
Ms. 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 Mohamed Al Tai	10,000
Mr. Padmanabhan Ananthan	10,000
Total	**107,700**

*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 2024 is OMR 56,709.481.

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 8 meetings in 2024.

Corporate Governance

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 Mohamed Al Tai	Chairperson	8
Mr. Said Hilal Al Habsi	Member	8
Mr. Nabil Hamad Al Mahrouqi	Member	8
Mr. Fahad Abulrahman Badar	Member	8
Mr. Padmanabhan Ananthan	Member	7

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 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 Financial Services Authority (FSA) 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 and 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, FSA 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 FSA 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 2024. The names of the members, their positions and their meeting attendance appear in the table below:

Table (5)

Name	Position	Meetings attended
Mr. Hamad Mohammad Al Wahaibi	Chairperson	9 (1 by proxy)
Ms. Najat Ali Al Lawatia	Member	9
Mr. Mohammed Ismail Mandani Al Emadi	Member	12 (1 by proxy)
Mr. Joseph Abraham	Member	13 (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 2024. 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 Abdulrahman Badar	Chairperson	6
Mr. Padmanabhan Ananthan	Member	7
Mr. Said Hilal Al Habsi	Member	7
Mr. Nabil Hamad Al Mahrouqi	Member	7

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 program 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) Program.

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 six meetings in 2024.

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 Al Mukhaini	Chairperson	6
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairperson	Member	6
Mr. Hamad Mohammad Al Wahaibi	Member	6
Mr. Joseph Abraham	Member	6 (2 by proxy)
Ms. Najat Ali Al Lawatia	Member	5
Mr. Nabil Hamad Al Mahrouqi	Member	6

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 Banks 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.
- Handle the termination, salary adjustment, promotion, bonus, incentives and proposals relating to the Chief Executive Officer and the Chief Executive Officer's direct reportees.
- Asses the performance of the Chief Executive Officer, Board direct reportees, direct reportees of the Chief Executive Officer.
- 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 whoever 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.

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

Corporate Governance

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 accordance with the regulatory 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 taking into account the assigned limits of authority and decision-making matrix.

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 Bank's policy. 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.

Table (8)

2024	Total remuneration (Including Deferred Amount (OMR)	Total Deferred Amount (OMR)
MRT-Excluding Control Functionaries	3,655,846	249,795
MRT-Control Functionaries Only	537,379	27,519
Total	**4,193,225**	**277,314**

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 Operating 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 Officer

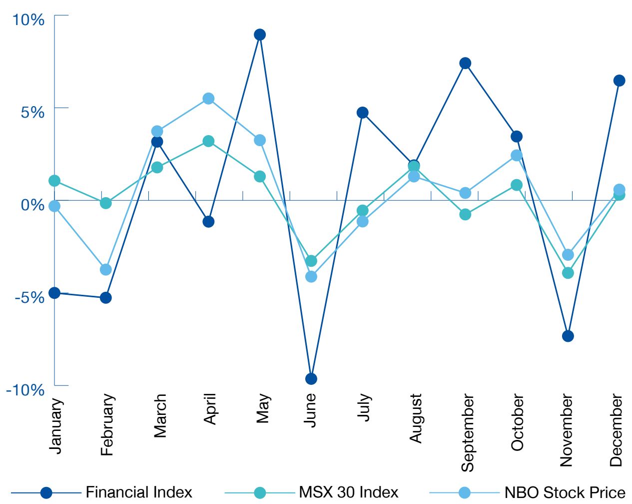
Market Price Data:

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 FY 2024 & Performance Comparison against MSX Index & Financial Index

Table (10)

Month/2024	High	Low	Close
January	0.270	0.266	0.266
February	0.252	0.252	0.252
March	0.260	0.260	0.260
April	0.257	0.257	0.257
May	0.280	0.276	0.280
June	0.260	0.253	0.253
July	0.263	0.263	0.265
August	0.270	0.270	0.270
September	0.290	0.290	0.290
October	0.300	0.300	0.300
November	0.278	0.278	0.278
December	0.000	0.000	0.296



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 ensure 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 web site, where relevant information relating to the Bank, its products, its operations and annual and quarterly financial statements are posted. The Bank's web-site 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 via the electronic platform managed by Muscat Clearing and Depository, 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 Bz/share	Bonus shares
2020	0	0%
2021	3.7	0%
2022	7.4	0%
2023	8.5	0%
2024	9.4	0%

Corporate Social Responsibility (CSR)

During 2024, the Bank made donations to charitable organizations and other non-profitable organizations and participated in CSR initiatives totaling OMR 200,000. This was from the CSR budget of OMR 200,000 approved by shareholders at the Annual General Meeting held on 27 March 2024.

Details of the Bank's main donations and CSR initiatives in 2024:

Table (12)

Supporting Areas	Implementation Mechanism	Budget (OMR)	Remarks
Community Development	Oman Charitable Organization 20%	40,000	-
	Shahar Al Atta	30,000	-
	NBO Fintech Accelerator Program	100,000	Committed from the 2024 CSR budget but not yet fully paid as the program concludes in 2025.
Request Based Support	Oman Design Associatoin	14,100	-
	Al Noor Association for Blind Al Amerat School SQU – College of Engineering Activities Nizwa Club – Al Qadisiya Team	9,200	-
	Al Fadhila Primary School, Ministry of Social Development – Special Needs Day, Zakat Committee (Seeb), Ministry of Culture, Sports & Youth (Ghurrh)	6,700	-
Total		**200,000**	

Distribution of Shareholding: Major shareholders (5% and above)

Table (13)

Shareholder Name	No. of shares as on December 31, 2024	%
The Commercial Bank of Qatar	567,452,883	34.90%
Suhail Salim Abdullah Al Mukhaini Bahwan	239,804,865	14.75%
Social Protection Fund	162,578,376	9.99%
Other Shareholders	656,110,231	40.36%
Total	**1,625,946,355**	**100%**

The shareholding pattern as on December 31, 2024:

Table (14)

Number of Shares	Number of Shareholders	Total Shares	% of Capital
7,000,000 and above	26	1,496,752,176	92.05%
3,000,000 to 6,999,999	14	65,258,137	4.01%
1,500,000 to 2,999,999	12	23,578,309	1.45%
500,000 to 1,499,999	17	14,345,219	0.882%
100,000 to 499,999	76	17,124,671	1.053%
Below 100,000	792	8,887,843	0.547%
Total	**937**	**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 paid the following amounts as detailed below during the last three years.

As of 2024, the Bank had complied with all relevant regulatory requirements in the last three years with the below exceptions:

During the FY 2023, the Bank was penalized OMR 10,000 due to instances of not providing the Non-Objective Certificates (NOC), within specified timeline. Further, OMR 20,000 was fined in relation to the regulatory instructions on withdrawal of deposit prize schemes. Lastly, OMR 40,000 was fined on certain deficiencies related to submission of periodic reports to the regulator.

Total Penalties: OMR 70,000

During the FY 2022, the Bank was penalized OMR 36,000 due to certain pending control enhancements related to cross border remittances to FATF Gray List Countries, which called for real-time Enhanced Due Diligence checks, additional steps on the requirements of withdrawal of deposit prize schemes and certain non-compliances relating to bank charges and 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

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.

Profile of the Statutory Auditor - PwC

PwC is a network of firms with more than 370,393 people operating from 149 countries in 656 cities across the globe, making us the largest professional services provider in the world. We are committed to delivering quality services in Assurance, Tax and Advisory (which includes our Consulting, Deals and Strategy& practices) and Internal Firm Services. In doing so we help to build trust in society, enable our clients to make the most of opportunities and solve important business problems.

PwC has operated in the Middle East region for more than 40 years. Collectively, our Middle East network employs in the region of almost 12,000 people including over 499 partners and 766 directors working from 30 offices (in 22 locations) across 12 countries: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates and 41% of our Middle East workforce is female.We are one of the fastest growing PwC member firms worldwide and the largest professional services firm in the Middle East. (HYPERLINK "http://www.pwc.com/me").

PwC is strongly committed to Oman where we are recognised as one of the leading providers of quality business advisory services. We have had a local practice in Oman since 1971 and now have 9 partners, 1 of whom is Omani and 5 directors and approximately 144 members of staff operating from our office in Muscat.

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

Corporate Governance

Statutory Auditor Remuneration & Scope of Services

The Annual General Meeting on March 27, 2024 had approved to appoint PricewaterhouseCoopers LLC (PwC) as the Bank's statutory auditor for the financial year ended on December 31, 2024. During the year ended 31 December 2024, the total amounts of OMR 159,513 (exclusive of VAT) paid/accrued to PwC or its network firms as consideration for their professional services.

The services which were provided by PwC or its network firms as per the services agreement includes audit services in respect of consolidated financial statements of the Bank, Muzn Islamic Banking financial statements prepared in accordance with AAOIFI and UAE branches financial statements; half yearly review of special purpose condensed consolidated financial statements; agreed upon procedures and examinations as required by respective regulatory authorities; and other professional services.

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 controls 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 Al Mukhaini
Chairperson of the Board of Directors

Customer Experience

The Financial Consumer Protection Regulation Framework (FCPRF) has been central to NBO's operations since June 2022. The Board and Senior Management have reinforced their commitment to ensuring the effective implementation of the FCPRF within NBO and to driving further enhancements in consumer protection.

To improve efficiency in customer service, data protection, transparency, and fair treatment, the following components have been enhanced:

- **Customer Complaints Redressal Mechanism**
- **Key Fact Statements (KFS) for products**
- **Awareness Campaign for the year 2025**
- **Customer Experience (CX) Policy**

The bank has implemented an Awareness, Training, and Education Strategy to enhance education and awareness among internal and external stakeholders. Clarity in communications, agreements, frameworks, and disclosures has been prioritized.

Internal and External Education Program:
In 2024, a training program was conducted for 57 NBO branches and 2 Muzn Islamic Banking branches.

Awareness Communications in 2024 focused on the following:

No.	Topic	No. of Communications
1	FCP Principles	9
2	Complaint Handling	5
3	Dhiyafa Philosophy and Service Culture	9

The topics covered critical components such as the Charter of Consumer Rights and Responsibilities, Fair Treatment, Telephone Etiquette, and creating a safe environment for persons with disabilities. These efforts collectively support building a service culture aligned with the bank's philosophy and standards.

Focusing on internal competency enhancement and effective control measures to foster a positive service culture, the trainings were further strengthened by the introduction of the Retail Sales Policy and enhancements to the Dhiyafa Service Standard Philosophy.

The below are the contact channels for NBO and Muzn Islamic Banking.

No.	Contact Channel	National Bank of Oman (NBO)	Muzn Islamic Banking
1	Customer Service Call Centre	+968 2457 0000	+968 2457 0001
2	Email	CX@nbo.om	CX@nbo.om
3	Website	https://www.nbo.om/	https://www.muzn.om/
4	Social Media	X: NBObank	
		Instagram: Nationalbankoman	NBO_Muzn_Islamicbanking
		LinkedIn: National Bank of Oman	
		Facebook: National Bank of Oman	
		Threads: Nationalbankoman	
		YouTube: National Bank of Oman	
5	Mobile App	NBO app – In-app customer support	-
6	Postal Address	National Bank of Oman, P.O. Box 751, PC 112, Ruwi, Sultanate of Oman	Muzn Islamic Banking, National Bank of Oman Head Office Building, 1st floor, B Wing, Athaiba.
7	Branch Visit	Walk-in complaints can be submitted at any NBO branch	Walk-in complaints can be submitted at any Muzn Islamic Banking branch
8	Live Chat	NBO WhatsApp - 24770000	-
9	Level (1)- Not satisfied with the resolution provided	**Mr. Hashil Al Abri** Head of CX Governance & Service Recovery hashilsalim@nbo.om Tel: +968 2477 8726 Working hours: (07:30 am - 03.00 pm)	
10	Level (2)- In case there is no update or resolution of your concern / complaint after escalating to level (1)	**Mr. Said Al Marhoobi** Head of Customer Experience Division saidhm@nbo.om Tel: +968 2477 8274 Working hours: (07:30 am - 03.00 pm)	

Financial Consumer Protection Regulation Framework (FCPRF)

The bank's Complaints Handling Mechanism has been strengthened with a straightforward guideline document, accessible across all channels, to enhance customer accessibility and engagement.

Below is the disclosure on customer complaints redressal:

	Complaints received by NBO & Muzn from customers	NBO 31st Dec 2024	NBO 31st Dec 2023	Muzn 31st Dec 2024	Muzn 31st Dec 2023
1	Number of complaints pending at the beginning of the year	94	138	4	1
2	Number of complaints received during the year	6266	9035	202	84
3	Number of complaints disposed during the year	6293	9079	204	81
4	Of which, number of complaints rejected by the bank	0	0	0	0
5	Number of complaints pending at the end of the year	237	94	2	4
6	Of which, number of complaints pending beyond 30 days	0	0	0	0

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Basel II - Pillar III and Basel III Report 2024

The Board of Directors
National Bank of Oman SAOG
PO Box 751
PC 112
Ruwi, Sultanate of Oman.

Dear Sirs

Agreed-upon procedures report of factual findings to the Board of Directors of National Bank of Oman SAOG (the "Bank") in respect of Basel-II Pillar III and Basel-III Disclosures (the "Disclosures") for the year ended 31 December 2024

Purpose of this Agreed-upon procedures report

This report is produced in accordance with the terms of our agreement dated 18 November 2024.The procedures as set out in Circular No. BM 1027 dated 4 December 2007 were performed solely to assist the directors of National Bank of Oman SAOG ("the Bank") in evaluating the Bank's compliance with the disclosure requirements set out in the CBO's Circular No. BM 1009 dated 13 September 2006, BM 1114 dated 17 November 2013 and, Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018, letter BSD/CB/2020/001 dated 18 March 2020, letter BSD/CB/2020/005 dated 3 June 2020 and letter SDD/CBS/CB/2024/108 dated 26 June 2024 (the "Circulars") and may not be suitable for another purpose.

Your responsibilities

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

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

Our responsibilities

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

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

Professional Ethics and Quality Management

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

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

Agreed-upon procedures report of factual findings to the Board of Directors of National Bank of Oman SAOG (the "Bank") in respect of Basel-II Pillar III and Basel-III Disclosures (the "Disclosures") for the year ended 31 December 2024 (continued)

Procedures and findings

We performed the procedures agreed with you and as prescribed in the CBO Circular No. BM 1027 dated 4 December 2007 with respect to the Disclosures of the Bank, set out on pages 1 to 31 as at and for the year ended 31 December 2024.

Based on the above procedures, we did not find any exceptions.

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

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

Restriction on distribution and use

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

Yours faithfully,

PricewaterhouseCoopers

PricewaterhouseCoopers LLC C.R. No 1230865

Muscat, Sultanate of Oman
4 March 2025

Pillar III Disclosures

NATIONAL BANK OF OMAN SAOG

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 has sought necessary approvals. 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 on the Euronext Dublin. During 2024, the Bank has issued perpetual bonds of USD 150.40 million which are listed on the Euronext Dublin.

Financial Services Authority 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 consolidated financial statement vide circular E/2/2007 dated 21 January 2007.

CAPITAL STRUCTURE

The authorised share capital of the bank as at 31 December 2024 is 2,000,000,000 shares of RO 0.100 each.

The issued and paid up capital of the bank as at 31 December 2024 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 40.0 million of capital towards the Islamic banking window.

The Bank's consolidated capital structure as at close of 31 December 2024, 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 *	265,154
Common equity Tier 1 before regulatory adjustments	**516,412**
Deduction	
Revaluation reserves / Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	(13,321)
Common equity Tier 1	**503,091**
Additional Tier 1 Capital	
Tier 1 Perpetual Bond	225,037
Tier I capital after all deductions	**728,128**
Tier II Capital	
Revaluation reserves / Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	4,917
Stage 1 and Stage 2 ECL allowance eligible for Tier 2	14,248
Total Tier II Capital	19,165
Total Regulatory Capital	**747,293**

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

CAPITAL ADEQUACY (continued)

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.

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
Position as at 31 December 2024	**(Ro'000)**
Tier I capital (after supervisory deductions)	**728,128**
Tier II capital (after supervisory deductions & upto eligible limits)	**19,165**
Risk Weighted Assets (RWAs) – Banking Book	**3,996,512**
Risk Weighted Assets (RWAs) – Operational Risk	**272,144**
Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk	**4,268,656**
Minimum required capital to support RWAs of Banking Book and Operational Risk	576,268
Minimum required capital comprises of;	
i) Tier I capital	557,103
ii) Tier II capital	19,165
Balance Tier I capital available for supporting Trading Book	171,025
Risk Weighted Assets (RWAs) – Trading Book	**94,013**
Total capital required to support Trading Book	12,692
Minimum Tier I capital required for supporting Trading Book	3,617
Total Regulatory Capital	**747,293**
Total Risk Weighted Assets – Whole bank	**4,362,669**
BIS Capital Adequacy Ratio (%)	**17.1**

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 2024			**(RO'000)**
On balance sheet items	5,314,965	5,086,616	3,664,591
Off balance sheet items	325,619	325,619	312,984
Derivatives	18,937	18,937	18,937
Operational Risk	0	0	272,144
Market Risk	0	0	94,013
Total	**5,659,521**	**5,431,172**	**4,362,669**
Common Equity Tier I Capital			503,091
Additional Tier 1 Capital			225,037
Tier 2 Capital			19,165
Total Regulatory Capital			**747,293**
Total Required Capital @ 13.50%			588,960
Capital requirement for Credit Risk			539,529
Capital requirement for Market Risk			12,692
Capital requirement for Operational Risk.			36,739
Common Equity Tier 1 Ratio (%)			**11.5**
Tier I Ratio (%)			**16.7**
Total Capital Ratio (%)			**17.1**

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 regulatory guidelines. 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 regulatory guidelines. 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, 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.

CREDIT RISK (continued)

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.

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. Regular updates are provided to the approving committees regarding the status of the loan portfolio.

Based on the prevailing market conditions, the Bank sustained its continuous monitoring of the portfolio with a thorough review and amendments 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. Ongoing efforts for implementing 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.

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CREDIT RISK (continued)

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 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
- A material decrease in the borrower's turnover or the loss of a major customer

CREDIT RISK (continued)

- The debtor (or any legal entity within the debtor's group) filing for Bankruptcy application/protection.

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 IMF'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 (2023: 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:

CREDIT RISK (continued)

- 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

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.

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CREDIT RISK (continued)

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.

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.

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.

CREDIT RISK (continued)

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 2024 increased the overall loss allowance by 0.48% 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.

The bank has formed a Model Oversight Committee. The committee is responsible for all significant modelling decisions related to each step of the model life cycle. The committee must ensure decisions are transparent, justified and documented The committee's main objective is to optimize the ability of models to support decision-making throughout the bank, covering all model types. The Model Oversight Committee is accountable to Senior Management and to the Board, who must ensure that the Model Oversight Committee manages Model Risk appropriately.The committee is required to provide an impartial view of the best modelling approach for the bank. It is expected to remain independent from actual, potential or perceived interests of business lines. Therefore, the majority of the Committee members are not from business lines

Each model is equired to be managed according to a cycle that includes, at a minimum, the following steps:

1. Development,
2. Pre-implementation validation,
3. Implementation,
4. Usage and monitoring,
5. Independent validation, and
6. Recalibration, redevelopment or retirement, if deemed necessary

The duration and frequency of each step is required to be specified in advance for each model and documented accordingly.

The responsibility of the Model oversight committee includes the below:

1. Design the bank's appetite for Model Risk to be approved by the Board,
2. Ensure that Model Risk is managed appropriately across the bank,
3. Escalate modelling decisions when necessary,
4. Oversee the objective and strategy of each model,
5. Approve the development of new models,
6. Request the development of new models when necessary,
7. Approve material modelling decisions throughout the model life-cycle,
8. At the end of each cycle, review the validation results and make one of the choices below:
   a) Leave the model unchanged,
   b) Use a temporary adjustment while establishing a remediation plan,
   c) Recalibrate the model,
   d) Redevelop or acquire a new model, or
   e) Withdraw the model without further redevelopment

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.

The provisions included in this report represent the total provisions at the bank level.

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 2024:

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	70,224	72,781	78,564	68,857
2	Personal loans	1,527,957	1,469,003	1,538,728	1,506,805
3	Loans against trust receipts	64,762	59,592	63,653	54,818
4	Term loans, Islamic financing and others	2,215,565	2,013,323	2,394,567	2,023,113
5	Bills discounted	14,079	13,744	15,194	10,850
	Total	**3,892,587**	**3,628,443**	**4,090,706**	**3,664,443**

(ii) Geographic distribution of exposures by major types of credit exposure as at 31 December 2024:

S. No	Type of Credit Exposure	Oman	Unted Arab Emirates	Others	Total
					(RO'000)
1	Overdrafts	67,953	10,611	-	78,564
2	Personal loans	1,538,431	297	-	1,538,728
3	Loans against trust receipts	61,022	2,631	-	63,653
4	Term loans, Islamic financing and others	2,249,606	121,808	23,153	2,394,567
5	Bills discounted	15,139	55	-	15,194
	Total	**3,932,151**	**135,402**	**23,153**	**4,090,706**

CREDIT RISK (continued)

(iii) Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2024:

S. No	Economy	Overdraft	Term loans, Islamic financing and others	Bills Discounted	Loans against trust receipts	Gross Loans	Off-Balance Sheet Exposure
							(RO'000)
1	Import Trade	-	10,530	-	61,022	71,552	-
2	Export Trade	-	9,025	-	-	9,025	-
3	Wholesale & Retail Trade	18,055	140,288	295	1,565	160,203	38,403
4	Mining & Quarrying	406	227,846	2,183	-	230,435	8,998
5	Construction	31,291	166,761	2,005	809	200,866	92,105
6	Manufacturing	4,353	214,300	324	257	219,234	35,298
7	Electricity, gas and water	2	311,552	-	-	311,554	21,227
8	Transport and Communication	1,847	279,899	-	-	281,746	23,147
9	Financial Institutions	604	361,239	9,169	-	371,012	44,775
10	Services	7,023	315,701	1,218	-	323,942	42,985
11	Personal Loans	-	1,538,728	-	-	1,538,728	82
12	Agriculture and Allied Activities	1,452	9,077	-	-	10,529	4,701
13	Government	-	218,597	-	-	218,597	-
14	Non-Resident Lending	-	45,065	-	-	45,065	-
15	All Others	13,531	84,687	-	-	98,218	934
	Total	**78,564**	**3,933,295**	**15,194**	**63,653**	**4,090,706**	**312,657**

(iv) Residual contractual maturity as at 31 December 2024 of the whole loan portfolio, broken down by major types of credit exposure:

S. No	Time Band	Overdraft	Term loans, Islamic financing and others	Bills Discounted	Loans against trust receipts	Gross Loans	Off-Balance Sheet Exposure
							(RO'000)
1	Upto 1 month	3,928	124,447	6,516	24,757	159,648	77,648
2	1-3 months	3,928	161,407	6,842	24,292	196,469	75,662
3	3-6 months	3,928	96,758	1,836	14,604	117,126	37,545
4	6-9 months	3,928	55,762	-	-	59,690	27,569
5	9-12 months	3,928	109,941	-	-	113,869	19,454
6	1-3 years	19,641	676,755	-	-	696,396	49,459
7	3-5 years	19,641	629,164	-	-	648,805	24,168
8	Over 5 years	19,642	2,079,061	-	-	2,098,703	1,152
	Total	**78,564**	**3,933,295**	**15,194**	**63,653**	**4,090,706**	**312,657**

CREDIT RISK (continued)

(v) Total loan broken down by major industry or counter party type as at 31 December 2024:

S. No	Economic Sector	Gross Loans	Of which, NPL as per IFRS -9	Stage -1 and stage- 2 provision as per IFRS -9	Stage 3 provision held as per IFRS -9	Provisions made during the year excluding reserve interest	Advances written off during the year
							(RO'000)
1	Import Trade	71,552	-	518	-	(689)	-
2	Export Trade	9,025	-	5	-	5	-
3	Wholesale & Retail Trade	160,203	17,429	5,449	11,975	796	1,741
4	Mining & Quarrying	230,435	13,724	623	9,775	2,046	-
5	Construction	200,866	61,003	4,130	45,913	8,336	417
6	Manufacturing	219,234	7,433	10,871	6,160	3,475	84
7	Electricity, Gas and Water	311,554	47	860	47	(980)	-
8	Transport and Communication	281,746	3,453	465	2,722	301	17
9	Financial Institutions	371,012	-	5,253	-	(247)	-
10	Services	323,942	50,407	6,178	28,385	9,565	9,630
11	Personal Loans	1,538,728	37,025	10,835	17,510	366	6,698
12	Agriculture and Allied Activities	10,529	52	224	11	116	-
13	Government	218,597	-	63	-	(12)	-
14	Non-Resident Lending	45,065	-	37	-	30	-
15	All Others	98,218	3	1,479	3	(93)	-
	Total	**4,090,706**	**190,576**	**46,990**	**122,501**	**23,015**	**18,587**

CREDIT RISK (continued)

(vi) Amount of impaired loans as at 31 December 2024, 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 provision as per IFRS -9	Stage 3 provision held as per IFRS -9	Provisions made during the year excluding reserve interest	Advances written off during the year
							(RO'000)
1	Oman	3,932,151	174,524	46,388	107,104	22,546	7,296
2	Unted Arab Emirates	135,402	16,052	602	15,397	469	11,291
3	Others	23,153	-	-	-	-	-
	Total	**4,090,706**	**190,576**	**46,990**	**122,501**	**23,015**	**18,587**

(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 2024	**2,746,178**	**754,781**	**163,484**	**3,664,443**
Transfer to stage 1	95,919	(95,268)	(651)	-
Transfer to stage 2	(13,534)	13,776	(242)	-
Transfer to stage 3	(5,552)	(66,546)	72,098	-
New loans, advances and Islamic financing assets	1,071,569	98,561	-	1,170,130
Recovery of loans, advances and Islamic financing assets	(552,232)	(147,522)	(25,526)	(725,280)
Write off for the period	-	-	(18,587)	(18,587)
Closing Balance - as at 31 December 2024	**3,342,348**	**557,782**	**190,576**	**4,090,706**
Total Provisions	**11,656**	**35,334**	**122,501**	**169,491**

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 2024, 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	778,900	-	-	-	9,625	-	788,525
2	Banks	-	142,538	-	195,305	42,732	504	381,079
	Unrated							
1	Corporate	147,000	3,385	-	-	1,801,480	-	1,951,865
2	Retail	-	-	-	-	948,636	-	948,636
3	Claims secured by residential property	-	-	377,340	-	175,727	-	553,067
4	Claims secured by commercial property	-	-	-	-	227,792	-	227,792
5	Past due loans	1,992	-	-	-	188,585	-	190,577
6	Other assets	34,799	-	-	-	238,474	151	273,424
7	Venture Capital & Private Equity Investments	-	-	-	-	-	-	-
8	Off-balance Sheet Items	3,093	5,032		12,963	321,538	1,930	344,556
	Total Banking Book	**965,784**	**150,955**	**377,340**	**208,268**	**3,954,589**	**2,585**	**5,659,521**

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	73,108
2	Specific provisions and reserve interest on loans and advances and due from banks	155,241
	Total	**228,349**

The capital requirement on credit risk as at 31 December 2024 is RO ('000) 539,529

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 2024:

- Foreign Exchange Risk - RO ('000) 12,692

OPERATIONAL RISK

Operational risk refers to the potential for loss resulting from system failures, human errors, fraud, or external events. When controls fail, operational risks can lead to reputational damage, legal or regulatory consequences, or financial losses. While the bank cannot completely eliminate all operational risks, it effectively manages them through a robust control framework that monitors and addresses potential threats. Key controls include the segregation of duties, access and authorization protocols, reconciliation procedures, staff training and evaluation, and the involvement of internal audit.

The bank uses the Basic Indicator Approach to calculate the capital charge for operational risk. This involves averaging the gross income over the last three financial years, excluding years with zero or negative gross income, and multiplying it by 15%. Gross income is calculated as 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.

As per Basel II, the capital requirement for operational risk is RO (000s) 36,739

The bank also utilizes insurance as a risk mitigation tool, including coverage such as Bankers' Blanket Bond (BBB), Professional Indemnity, insurance for incomplete transactions, Directors and Officers Liability, and Cyber Liability insurance. These policies help protect the bank from high-severity risks by minimizing their financial impact.

OPERATIONAL RISK (continued)

Furthermore, the bank has established a special operational risk appetite framework to monitor operational incidents and losses regularly. This ensures that any potential breaches are detected, and necessary mitigants are implemented to manage these risks effectively

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. The Board has approved the Bank's Climate Risk Policy.

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.

INTEREST RATE RISK (continued)

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 2024	200 bps increase	200 bps decrease
Earnings impact - RO'000s	9,893	(9,893)

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.

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 2024 was as follows:

	Average effective interest rate	On demand 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	RO'000
Cash and balances with Central Banks	N/A	-	-	-	-	302,512	302,512
Due from Banks and other money market placements (net)	5.83%	285,025	52,745	13,475	-	21,119	372,364
Loans, advances and Islamic financing assets (net)	6.24%	1,428,101	1,143,777	734,736	619,533	-	3,926,147
Investment securities (net)	5.42%	117,552	26,007	277,473	43,659	8,702	473,393
Other assets	N/A	79,972	-	-	-	28,690	108,662
Property and equipment	N/A	-	-	-	-	59,467	59,467
Total assets		1,910,650	1,222,529	1,025,684	663,192	420,490	5,242,545
Due to Banks and other money market deposits	5.55%	58,054	30,800	89,686	-	14,398	192,938
Customers' deposits and unrestricted investment accounts	3.72%	302,227	2,221,042	955,654	86	649,514	4,128,523
Other liabilities	N/A	79,972	-	-	-	53,828	133,800
Taxation	N/A	-	-	-	-	19,123	19,123
Tier 1 Perpetual Bond	7.39%	-	-	225,037	-	-	225,037
Shareholders' equity	N/A	-	-	-	-	543,124	543,124
Total liabilities and shareholders' equity		440,253	2,251,842	1,270,377	86	1,279,987	5,242,545
Total interest rate sensitivity gap		1,470,397	(1,029,313)	(244,693)	663,106	(859,497)	-
Cumulative interest rate sensitivity gap		1,470,397	441,084	196,391	859,497	-	

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.

LIQUIDITY RISK (continued)

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 2024 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	147,115	51,951	199,066	70,472	32,974	103,446	302,512
Due from Banks and other money market placements (net)	306,144	52,745	358,889	7,700	5,775	13,475	372,364
Loans, advances and Islamic financing assets (net)	353,889	287,100	640,989	1,335,962	1,949,196	3,285,158	3,926,147
Investment securities (net)	114,848	26,007	140,855	277,472	55,066	332,538	473,393
Other assets	104,551	4,111	108,662	-	-	-	108,662
Property and equipment	-	-	-	-	59,467	59,467	59,467
Total assets	**1,026,547**	**421,914**	**1,448,461**	**1,691,606**	**2,102,478**	**3,794,084**	**5,242,545**
Future interest cash inflows	67,352	176,339	243,691	697,862	312,541	1,010,403	1,254,095
Due to Banks and other money market deposits	72,452	30,800	103,252	89,686	-	89,686	192,938
Customers' deposits and unrestricted investment accounts	739,351	1,110,794	1,850,145	1,561,354	717,024	2,278,378	4,128,523
Other liabilities	129,232	4,527	133,759	41	-	41	133,800
Taxation	19,123	-	19,123	-	-	-	19,123
Shareholders' equity	-	-	-	-	543,124	543,124	543,124
Tier 1 perpetual bonds	-	-	-	-	225,037	225,037	225,037
Total liabilities and shareholders' equity	960,158	1,146,121	2,106,279	1,651,081	1,485,185	3,136,266	5,242,545
Future interest cash outflows	41,379	96,205	137,584	301,115	109,446	410,562	548,145
Total liquidity gap (total assets – total liabilities and sharedholders' equity	66,389	(724,207)	(657,818)	40,525	617,293	657,818	-
Cumulative liquidity gap	66,389	(657,818)	(1,315,636)	(1,275,111)	(657,818)	-	-

LIQUIDITY RISK (continued)

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 effective January 2019, with a minimum ratio of 100% as per the regulatory guidance.

	Total Unweighted Value (average) 2024	Total Weighted Value (average) 2024
	(RO'000)	(RO'000)
HIGH QUALITY LIQUID ASSETS		
TOTAL HIGH QUALITY LIQUID ASSETS (HQLA)	572,408	572,408
Cash outflows		
Stable deposits	385,896	11,577
Less stable deposits	296,604	29,660
Retail deposits and deposits from small business customers	682,500	41,237
Unsecured wholesale funding, of which:	1,514,221	541,657
Operational deposits (all counterparties) and deposits in networks of cooperative banks		
Additional requirements, of which:		
Credit and liquidity facilities	28,065	2,807
Other contractual funding obligations	5,988	299
Other contingent funding obligations	540,296	160,455
TOTAL CASH OUTFLOWS	2,771,070	746,455
CASH INFLOWS		
Inflows from fully performing exposures	428,941	355,993
Other cash inflows	184,245	184,245
TOTAL CASH INFLOWS	613,186	540,238
TOTAL HIGH QUALITY LIQUID ASSETS		572,408
TOTAL NET CASH OUTFLOWS		206,217
LIQUIDITY COVERAGE RATIO (%)		277.6

LIQUIDITY RISK (continued)

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 2024 was as follows:

Item	Unweight value	Weighted value
AVAILABLE STABLE FUNDING	**(RO'000)**	**(RO'000)**
Regulatory capital	**747,293**	**747,293**
Liabilities with effective residual maturities of one year or more	2,422,150	2,422,150
Retail and small business customers		
- Stable Deposits	254,975	242,226
- Less Stable Deposits	137,145	123,430
Wholesale Funding		
- Operational and short term funding	1,354,145	677,072
- Other wholesale funding	569,888	193,684
TOTAL AVAILABLE STABLE FUNDING	5,485,596	4,405,855
REQUIRED STABLE FUNDING		
High quality liquid assets		
- Coins, banknotes and reserves with CBO	302,012	-
- Other Level 1 assets	310,652	15,533
Funding to financial institutions with residual maturities of less than six months not included in the above categories	357,599	53,640
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	858,272	303,434
Unencumbered residential mortgages that would qualify for the 35% or lower risk weight under Basel II standardised approach for credit risk	408,079	265,251
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.	3,053,958	3,053,958
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	392,723	19,636
TOTAL REQUIRED STABLE FUNDING	5,683,295	3,711,452
NSFR (MIN BASEL III REQUIREMENT - 100%) (%)		**118.7**

Leverage Ratio

The leverage ratio deals with the risk of buildup of excessive on and off balance sheet exposures. Minimum Leverage Ratio standard of 4.5% will be made applicable to all the Banks effective from the year 2019.

LIQUIDITY RISK (continued)

Basel III leverage ratio framework and disclosure requirements

The leverage ratio in line with guidelines issued by Central Bank of Oman, at 31 December 2024 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 December 2024
1	Total consolidated assets as per published financial statements	5,242,545
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	18,937
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)	274,440
7	Other adjustments	-
8	**Leverage ratio exposure**	**5,535,922**

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 December 2024
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	5,242,545
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)	5,242,545
	DERIVATIVE EXPOSURES	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	18,937
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)**	**18,937**
	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	392,724
18	(Adjustments for conversion to credit equivalent amounts)	(118,284)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**274,440**
	CAPITAL AND TOTAL EXPOSURES	
20	**Tier 1 capital**	**728,128**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**5,535,922**
	Leverage Ratio	
22	Basel III leverage ratio (%)	13.2

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 2024.

Prepared under the guidelines on composition of capital disclosure requirements

Table 2a	(RO'000)
Balance sheet as in published financial statements 31 December 2024	
Assets	
Cash and balances with Central Banks	302,512
Due from Banks and other money market placements (net)	372,364
Loans, advances and Islamic financing assets (net)	3,926,147
Financial investments	473,393
Property and equipment	59,467
Other assets	108,662
Total assets	**5,242,545**
Liabilities	
Due to banks and other money market deposits	192,938
Customers' deposits	4,128,523
Other liabilities	133,800
Taxation	19,123
Total liabilities	**4,474,384**
Shareholders' Equity	
Share capital	162,595
Share premium	34,465
Legal reserve	54,198
Other non distributable reserves	11,429
Retained earnings	280,437
Tier 1 perpetual bond	225,037
Total shareholders' equity	**768,161**
Total liability and shareholders' funds	**5,242,545**

Basel II - Pillar III and Basel III Report 2024

Prepared under the guidelines on composition of capital disclosure requirements

Table 2b		(RO'000)
Balance sheet as in published financial statements 31 December 2024		**Reference**
Assets		
Cash and balances with Central Bank of Oman	302,512	
Certificates of deposit	-	
Balance with banks and money at call and short notice	345,713	
Investments in securities	473,393	
Loans and advances Of which:		
Loans to Banks - Gross	26,757	
General Provisions considered for Tier 2	(106)	A
Net Loans to banks	26,651	
Loans to Customers - Gross	4,090,706	
Loans Provisions for Impairment	(150,417)	
Eligible Provisions considered for Tier 2	(14,142)	B
Net Loans to customers	3,926,147	
Fixed assets	59,467	
Other assets of which:	108,662	
Deferred tax assets	-	
Amount considered for CET1	-	
current year allocation - **not eligible**	-	
Total Assets	**5,242,545**	
Capital & Liabilities		
Paid-up Capital	197,060	
Of which:		
Amount eligible for CET1	197,060	C
Amount eligible for AT1	-	
Reverses and Surplus	280,437	
Of which: Amount eligible for CET1		
Retained earnings carried forward	265,154	D
Amount **not eligible** for CET1	15,283	
Legal reserve	54,198	E
General reserve	-	
Subordinated debt reserve	-	
Total Amount eligible for CET1	**516,412**	**F**
Tier 1 perpetual bond	225,037	H
Proposed Cash Dividend	-	
Cumulative changes in fair value of investments	(13,321)	
Amount eligible for Tier 1	13,321	G
Revaluation reserve	11,429	
Total Capital	**768,161**	
Deposits Of which:		
Deposits from banks	192,938	
Customer deposits	3,793,176	
Deposits of Islamic Banking window	335,347	
Euro medium term notes	-	
Other deposits (Sub-debt)	-	
Other liabilities & provisions Of which:	152,923	
TOTAL	**5,242,545**	

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	265,154	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	**516,412**	**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	(13,321)	G
TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1	**(13,321)**	
COMMON EQUITY TIER 1 CAPITAL (CET1)	**503,091**	
ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS (TIER 1 PERPETUAL BOND)	**225,037**	**H**
ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS - NIL		
TIER 1 CAPITAL (T1 = CET1 + AT1)	**728,128**	
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	14,248	A + B
Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	4,917	
TIER 2 CAPITAL: BEFORE REGULATORY ADJUSTMENTS	**19,165**	
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)	**19,165**	
TOTAL CAPITAL (TC = T1 + T2)	**747,293**	

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	265,154
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	516,412
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.	(13,321)
Total regulatory adjustments to Common Equity Tier 1	(13,321)
Common Equity Tier 1 capital	503,091
ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS	225,037
ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS NIL	
Tier 1 capital	728,128
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	14,248
TIER 2 CAPITAL BEFORE REGULATORY ADJUSTMENTS	**14,248**
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	4,917
Total regulatory adjustments to Tier 2 capital	**-**
Tier 2 capital	**19,165**
Total capital	**747,293**
Total risk weighted assets	**4,362,669**
Of which: Credit risk weighted assets	3,996,512
Of which: Market risk weighted assets	94,013
Of which: Operational risk weighted assets	272,144

Basel III common disclosure (continued)

	AMOUNTS (RO'000)
CAPITAL RATIOS	
Common Equity Tier 1 (as a percentage of risk weighted assets)	11.5
Tier 1 (as a percentage of risk weighted assets)	16.7
Total capital (as a percentage of risk weighted assets)	17.1
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	2.03
NATIONAL MINIMA (IF DIFFERENT FROM BASEL III)	
National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	9.50
National Tier 1 minimum ratio (if different from Basel 3 minimum)	11.50
National total capital minimum ratio (if different from Basel 3 minimum)	13.50

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.

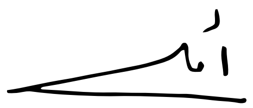
2. All other regulatory capital instruments

1	Issuer	-	National Bank of Oman	National Bank of Oman	National Bank of Oman
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-	XS2320458172	XS2485968569	XS2905559816
3	Governing law(s) of the instrument	-	English	English	English
4	Transitional Basel III rules	-	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional Basel III rules	-	Eligible	Eligible	Eligible
6	Eligible at solo/group/group & solo	-	Solo	Solo	Solo
7	Instrument type	-	Additional Tier 1	Additional Tier 1	Additional Tier 1
8	Amount recognised in regulatory capital	-	RO 115.5 million	RO 51.63 million	RO 57.90 million
9	Par value of instrument	-	RO 115.5 million	RO 51.63 million	RO 57.90 million
10	Accounting classification	-	Equity	Equity	Equity
11	Original date of issuance	-	01-Apr-2021	29-Nov-2022	23-Oct-2024
12	Perpetual or dated	-	Perpetual	Perpetual	Perpetual
13	Original maturity date	-	Not applicable	Not applicable	Not applicable
14	Issuer call subject to prior supervisory approval	-	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	-	01-Apr-2026	29-Nov-2027	23-Oct-2029
16	Subsequent call dates, if applicable	-	Every five years	Every five years	Every five years

	Coupons / dividends				
17	Fixed or floating dividend/coupon	-	Fixed	Fixed	Fixed
18	Coupon rate and any related index	-	8.000%	6.750%	6.750%
19	Existence of a dividend stopper	-	Yes	Yes	Yes
20	Fully discretionary, partially discretionary or mandatory	-	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	-	No	No	No
22	Noncumulative or cumulative	-	Non cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	-	Non convertible	Non convertible	Non convertible
24	If convertible, conversion trigger (s)	-	Not applicable	Not applicable	Not applicable
25	If convertible, fully or partially	-	Not applicable	Not applicable	Not applicable
26	If convertible, conversion rate	-	Not applicable	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	-	Not applicable	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	-	Not applicable	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts into	-	Not applicable	Not applicable	Not applicable
30	Write-down feature	-	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	-	Non viability event	Non viability event	Non viability event
32	If write-down, full or partial	-	Full (See note)	Full (See note)	Full (See note)
33	If write-down, permanent or temporary	-	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	-	Not applicable	Not applicable	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	Subordinated to Senior Liabilities and Tier 2 - Subordinted debts	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	No
37	If yes, specify non-compliant features	-	Not applicable	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 26 January 2025.



Amal Suhail Bahwan Al Mukhaini
Chairperson

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Financial Statements Report 2024

Independent auditor's report to the shareholders of National Bank of Oman SAOG

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of National Bank of Oman (the "Bank") and its subsidiary (together, the "Group") as at 31 December 2024, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2024;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- The consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

Key Audit Matter(s)	• Measurement of expected credit losses (ECL) on loans, advances and Islamic financing assets

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

Our audit approach (continued)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Measurement of expected credit losses (ECL) on loans, advances and Islamic financing assets The ECL charge on Bank's loans, advances and Islamic financing assets for the year ended 31 December 2024 amounted to RO 23.15 million and the allowance for ECL as at that date amounted to RO 164.56 million. The ECL provision represents the directors' best estimate of the credit losses as at the statement of financial position date.	We assessed the appropriateness of the methodology used to calculate ECL and the adequacy of the ECL as at 31 December 2024. We carried out the following procedures in conjunction with our ECL experts who supported us on certain specific matters: • understanding the Bank's IFRS 9 based impairment provisioning policy and comparing it with the requirements of IFRS 9; • assessing the design and testing operating effectiveness of controls, on a sample basis, over the estimation of ECL on loans, advances and Islamic financing assets; • obtaining an understanding of and testing the completeness and accuracy of the historical and current data used for the ECL calculations within the Bank's ECL models; • obtaining an understanding of and testing the grouping of similar financial assets in the portfolios for the purposes of measuring ECL;

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

Our audit approach (continued)

Key audit matter	How our audit addressed the Key audit matter
We considered the measurement of ECL on loans, advances and Islamic financing assets as a key audit matter as the determination of ECL has a material impact on the consolidated financial statements. It also requires the directors to exercise judgement and make complex estimates that impact the size and the timing of the ECL, including: • identifying portfolios of similar financial instruments; • choosing appropriate models and assumptions for the measurement of ECL including Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD); • determining criteria for significant increase in credit risk (SICR) and therefore staging; • assessing the recoverability of Stage 3 financial assets; • establishing the number and relative weightings of forward-looking scenarios for each type of financial instrument and the associated ECL; • determining overlays to the ECL derived from the model to account for factors that may not have been fully captured by the model; and • determining disclosure requirements in accordance with IFRS Accounting Standards. In addition, the directors make judgmental adjustments to modelled outcome, the measurement of which is inherently judgemental and subject to a high level of estimation uncertainty. The Bank's accounting policy on measurement of expected credit losses (ECL) on loans, advances and Islamic financing assets is presented in note 3.6 to the consolidated financial statements. Information on credit risk and the Bank's credit risk management is provided in note 31 to the consolidated financial statements. Disclosure of the impairment losses for the year is provided in note 27 to the consolidated financial statements.	• assessing the appropriateness of the criteria used to determine the SICR; • assessing the appropriateness of the definition of default; • testing a sample of customers to determine the appropriateness and proper application of the staging criteria; • testing the reasonableness of historical macroeconomic and forward-looking information and assumptions used by the directors by agreeing to the latest available macro-economic information; • reviewing of PD, LGD and EAD methodology and its compliance with IFRS 9 requirements; • testing and assessing the reasonableness of the Bank's use of scenarios, weightings and discounting; • obtaining an understanding of the methodology to identify and calculate individual impairment allowance and testing a sample of such credit exposures against the methodology; • testing the appropriateness of the directors' judgmental adjustments to the ECL model provisions; and • assessing the disclosures made by the directors in the consolidated financial statements.

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

Other information

The directors are responsible for the other information. The other information comprises Chairperson's Report, Management Discussion and Analysis Report, Corporate Governance Report, Basel II - Pillar III and Basel III Report, Muzn Islamic Banking (comprising the Muzn Islamic Banking financial statements, Report of Shari'a Supervisory Board, and Basel II - Pillar III and Basel III Report), but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report and the Bank's Annual Report, which is expected to be made available to us after that date.

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

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

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

When we read the Bank's Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Responsibilities of the directors for the consolidated financial statements

The directors responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards and their preparation in compliance with the relevant requirements of the Financial Services Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as they determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Report on other legal and regulatory requirements

Further, as required by the relevant requirements of the Financial Services Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, we report that the consolidated financial statements have been prepared and comply, in all material respects, with those requirements and provisions.

Kashif Kalam
Muscat, Sultanate of Oman
04 March 2025

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

	Note	2024 RO'000	2023* RO'000
ASSETS			
Cash and balances with Central Banks	4	**302,512**	404,477
Due from banks and other money market placements	5	**372,364**	324,920
Loans, advances and Islamic financing assets	6	**3,926,147**	3,506,760
Investment securities	7	**473,393**	461,656
Other assets	8	**108,662**	68,300
Property and equipment	9	**59,467**	55,893
TOTAL ASSETS		**5,242,545**	4,822,006
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other money market deposits	10	**192,938**	414,209
Customers' deposits	11	**4,128,523**	3,609,943
Other liabilities	12	**133,800**	104,335
Taxation	13	**19,123**	18,976
TOTAL LIABILITIES		**4,474,384**	4,147,463
EQUITY			
Share capital	14	**162,595**	162,595
Share premium	15	**34,465**	34,465
Legal reserve	16	**54,198**	54,198
Other reserves	17	**11,429**	7,882
Retained earnings		**280,437**	248,270
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		**543,124**	507,410
Tier 1 perpetual bonds	18	**225,037**	167,133
TOTAL EQUITY		**768,161**	674,543
TOTAL LIABILITIES AND EQUITY		**5,242,545**	4,822,006

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 January 2025.

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

The attached notes 1 to 36 form part of these consolidated financial statements.
*Refer to note 36 for changes to corresponding amounts.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2024

	Note	2024 RO'000	2023* RO'000
Interest income	21	**250,674**	226,353
Interest expense	22	**(148,240)**	(121,888)
Net interest income		**102,434**	104,465
Income from Islamic financing and investments		**21,350**	16,174
Interest expenses on Islamic customers' deposits		**(15,001)**	(10,097)
Net income from Islamic financing and investments		**6,349**	6,077
Net interest income and net income from Islamic financing and investments		**108,783**	110,542
Fee and commission income	23	**37,836**	32,957
Fee and commission expenses	23	**(12,796)**	(11,708)
Net fee and commission income		**25,040**	21,249
Other operating income	24	**17,503**	14,076
Operating income		**151,326**	145,867
Staff cost	25	**(39,372)**	(38,212)
Other operating expenses	26	**(17,284)**	(17,598)
Depreciation	9	**(6,327)**	(6,099)
Total operating expenses		**(62,983)**	(61,909)
Profit from operations before impairment losses and tax		**88,343**	83,958
Total impairment losses on financial instruments (net)	27.5	**(14,136)**	(15,698)
Profit before tax		**74,207**	68,260
Taxation	13	**(11,144)**	(10,231)
PROFIT FOR THE YEAR		**63,063**	58,029
OTHER COMPREHENSIVE (LOSS) / INCOME			
Items that will not be reclassified to profit or loss			
Equity investments at FVOCI – net change in fair value		**(382)**	601
Tax effect of equity investments at FVOCI – net change in fair value	13	**(314)**	(164)
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR		**(696)**	437
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**62,367**	58,466
Earnings per share: Basic and diluted – (RO)	29	**0.031**	0.028

The attached notes 1 to 36 form part of these consolidated financial statements.
*Refer to note 36 for changes to corresponding amounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2024

	Share capital (note14)	Share premium (note 15)	Legal reserve (note16)	Other reserves (note 17)	Retained earnings	Total equity attributable to the share holder of the bank	Tier 1 perpetual bond (note18)	Total equity
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2024	**162,595**	**34,465**	**54,198**	**7,882**	**248,270**	**507,410**	**167,133**	**674,543**
Profit for the year	-	-	-	-	**63,063**	**63,063**	-	**63,063**
Other comprehensive loss for the year	-	-	-	**(696)**	-	**(696)**	-	**(696)**
Net losses on derecognition of financial instruments measured at FVOCI (net of tax)	-	-	-	**1**	**(1)**	-	-	-
Transfer to impairment reserve	-	-	-	**4,242**	**(4,242)**	-	-	-
Issuance of Tier 1 perpetual bonds	-	-	-	-	-	-	**57,904**	**57,904**
Issuance cost on Tier 1 perpetual bonds	-	-	-	-	**(107)**	**(107)**	-	**(107)**
Payment of interest on Tier 1 perpetual bond	-	-	-	-	**(12,725)**	**(12,725)**	-	**(12,725)**
Payment of dividend	-	-	-	-	**(13,821)**	**(13,821)**	-	**(13,821)**
Balance at 31 December 2024	**162,595**	**34,465**	**54,198**	**11,429**	**280,437**	**543,124**	**225,037**	**768,161**
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

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

		2024	2023*
	Note	RO'000	RO'000
OPERATING ACTIVITIES			
Profit before taxation		**74,207**	68,260
Adjustments for:			
Depreciation	9	**6,327**	6,099
Total impairment losses on financial instruments (net)	27.5	**14,136**	15,698
Amortization of (discount) / premium (net)		**(535)**	(1,260)
Profit on sale of property and equipment		**(103)**	(7)
Gain on investments at FVTPL and amortised cost	24	**(153)**	(780)
Translation differences		**(6)**	(16)
Income from investment securities (dividend and interest)		**(30,316)**	(26,358)
Operating cash flows before changes in operating assets and liabilities		**63,557**	61,636
Due from banks and other money market placements		**(66,193)**	(72,224)
Loans, advances and Islamic financing assets		**(433,654)**	(134,898)
Other assets		**(40,362)**	12,997
Due to banks and other money market deposits		**(221,271)**	151,927
Customers' deposits		**518,580**	542,882
Other liabilities		**28,445**	(33,036)
Cash (used in) / generated from operating activities		**(150,898)**	529,284
Taxes paid	13	**(9,997)**	(7,078)
Cash (used in) / generated from operating activities		**(160,895)**	522,206
INVESTING ACTIVITIES			
Purchase of investment securities		**(95,975)**	(92,470)
Proceeds from sale of investment securities		**84,734**	41,627
Purchase of property and equipment		**(8,474)**	(3,541)
Proceeds from sale of property and equipment		**275**	210
Income from investment securities (dividend and interest)		**30,092**	26,902
Net cash generated from / (used in) investing activities		**10,652**	(27,272)
FINANCING ACTIVITIES			
Payment of dividend	19	**(13,821)**	(12,032)
Repayment of euro medium term notes		**-**	(191,813)
Proceeds from Tier 1 perpetual bond		**57,904**	-
Interest on Tier 1 perpetual bond		**(12,725)**	(12,725)
Payment of lease liabilities		**(1,665)**	(2,260)
Issuance cost on Tier 1 perpetual bond		**(107)**	-
Net cash generated from / (used in) financing activities		**29,586**	(218,830)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(120,657)**	276,104
Cash and cash equivalents at the beginning of the year		**631,967**	355,863
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**511,310**	631,967
REPRESENTING:			
Cash and balances with Central Banks	4	**302,012**	403,977
Due from banks with original maturity of three months or less		**209,298**	227,990
		511,310	631,967

Interest received was RO 257 million (2023: RO 248 million) and interest paid was RO 158 million (2023: RO 117 million). These are part of the operating cash flows of the Bank. There are no significant non-cash changes to be disclosed for 2024 and 2023.

The attached notes 1 to 36 form part of these consolidated financial statements.
*Refer to note 36 for changes to corresponding amounts.

Notes to the Consolidated Financial Statements

As at 31 December 2024

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 has sought necessary approvals. 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 on the Euronext Dublin. During 2024, the Bank has issued perpetual bonds of USD 150.40 million which are listed on the Euronext Dublin.

Financial Services Authority 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 consolidated financial statement vide circular E/2/2007 dated 21 January 2007.

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

Name of the entity	Country of incorporation	Activity of the subsidiary	Percentage of ownership	
			2024	2023
NBO Global Markets Cayman Limited	Cayman Islands	Financial services	100%	100%

The sizes, operations and financial statements of the above SPV 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 consolidated financial statements.

2. BASIS OF PREPARATION

2.1 Basis of measurement

The consolidated 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 consolidated 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 consolidated financial statements are disclosed in note 2.4.

2.2 Functional and presentation currency

These consolidated 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 consolidated 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 consolidated financial statements of the Bank have been prepared in accordance with IFRS Accounting Standards, applicable regulations of the Central Bank of Oman ("CBO"), and in compliance with applicable requirements of the Commercial Companies Law of Oman 2019 and the Financial Services 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 Accounting Standards compliant financial statements and included in these consolidated financial statements. All intra group balances and transactions have been eliminated.

2.4 Significant accounting judgments and estimates

The Bank makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are as follows:

2.4.1 ECL measurement

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 31. The calculation of the Bank's ECL under IFRS 9 requires the Bank to make a number of judgements, assumptions and estimates. The most significant are set out below:

1. Segmentation of financial assets for the ECL assessment purposes;
2. Establishing the criteria for assessing if there has been a significant increase in credit risk;
3. Determining the methodology for incorporating forward-looking information into the measurement of ECL;
4. Selection of forward-looking macroeconomic scenarios and their probability weightings;

2. BASIS OF PREPARATION (continued)

2.4 Significant accounting judgments and estimates (continued)

2.4.1 ECL measurement (continued)

5. Selection of appropriate models (PD, LGD and EAD) for the measurement of ECL; and
6. Determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

Refer note 31.1 which describes the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

The Bank regularly reviews the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

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 consolidated financial statements continue to be prepared on a going concern basis.

2.4.5 Assessment whether cash flows are solely payments of principal and interest ("SPPI") for certain islamic financing assets

Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement for certain islamic financing assets. The management has assessed the prepayment and early termination features of the contract which require the customers to pay certain compensation in addition to the outstanding principal and accrued profit. However, the management believes that such additional amounts represent 'reasonable compensation' for the reinvestment costs.

2.4.6 Classification of the Equity Tier 1 instrument under IAS 32

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 key features of the instruments are as follows:

- no fixed date of maturity.
- payment of interest and/or capital is solely at the discretion of the Bank
- the instruments are deeply subordinated and rank just above the ordinary shareholders
- these securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of the Central Bank of Oman. The determination of equity classification of these instruments requires significant judgement as certain clauses, particularly the "Events of Default", require interpretation.

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

2.5 Standards, amendments and interpretations effective in 2024 and relevant for the Bank's operations

For the year ended 31 December 2024, 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 2024. The following amendments to existing standards and framework have been applied by the Bank in preparation of these financial statements.

- Classification of Liabilities as Current or Non-current and Noncurrent liabilities with covenants – Amendments to IAS 1.
- Lease liability in sale and leaseback – Amendments to IFRS 16.
- Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7.
- International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12

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

2.6 Standards issued but not yet effective

A number of new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2025 or later, and which the Bank has not early adopted.

- Amendments to IAS 21 - Lack of Exchangeability (effective date – 1 January 2025);
- Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS (effective date – 1 January 2026);
- IFRS 18, 'Presentation and Disclosure in Financial Statements' (effective date – 1 January 2027); and
- IFRS 19, 'Subsidiaries without Public Accountability: Disclosures' (effective date – 1 January 2027)

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

3. MATERIAL ACCOUNTING POLICIES

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

3.1 Financial instruments

Valuation of financial instruments

All financial instruments are initially recognised at fair value. 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 of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the group recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction, until the transaction matures, is closed out, the valuation inputs become observable or the Bank enters into an offsetting transaction.

Financial instruments – initial recognition

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an Expected Credit Loss (ECL) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

3. MATERIAL ACCOUNTING POLICIES (continued)

3.1 Financial instruments (continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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 (AC).

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; and Investment Securities

The Bank measures due from banks; loans, advances and Islamic financing assets; and investment securites to customers and other Investment securities 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 and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

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 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.

Assessment whether contractual cash flows are solely payments of principal and interest ('SPPI') (Continued)

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 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.

3.2.3 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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

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.

3.2.4 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 consolidated 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 12 and 27.

3.2.5 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.

3.2.6 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'.

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 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.

As at 31 December 2024, the Bank does not have any derivatives designated as hedging instruments.

a. 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 2024 and 2023.

b. 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.

3.3 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

3. MATERIAL ACCOUNTING POLICIES (continued)

3.3 Modifications of financial assets and financial liabilities (continued)

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.

3.4 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.

3.4.1 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.

3.4.2 Overview of the ECL principles

The Bank measures 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:

3.4.3 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:

- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

3.4 Impairment of financial assets (continued)

3.4.4 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; and
- 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.

3.4.5 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.

3.5 Credit-impaired financial assets

At each reporting date, the Bank 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:

- 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.

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.

3.6 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.

3.7 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.

3.8 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 34.

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

3.9 Property and equipment

Property and equipment are recorded at cost or deemed cost.

3. MATERIAL ACCOUNTING POLICIES (continued)

3.9 Property and equipment (continued)

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 9). 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.

3.10 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.

3.11 Deposits

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

3.12 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.

3.13 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 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.

3.14 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 consolidated financial statements.

3.15 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.

3.16 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.

3.17 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.

3.18 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. MATERIAL ACCOUNTING POLICIES (continued)

3.18 Revenue recognition (continued)

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.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost. Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost and interest expense on lease liabilities.

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.

Miscellaneous income

Miscellaneous income includes various services charges charged to the customers such as locker rent, telex charges, ATM charges and charges for non- maintenance of minimum balance. Fees in scope of IFRS 15 are recognised when the Bank transfers control over a product or service to a customer, this is generally at a point in time.

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
Transactional services	The services include opening, closing and maintenance of deposit accounts, cheque issuance, clearing, deposit and payments transactions, remittances, safe deposit lockers. It also include card and e-channel services like interchange and merchant services generated from card issuance and usage. Transaction-based fees are charged to the customer's account when the transaction takes place.	The Bank recognises revenue on completion of service or proportionate completion basis or satisfaction of performance obligation as per the terms of contract
Trade services	The services cover issuance of letter of credit or guarantee, negotiations and other trade transactions. Trade services fees are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract	Income is recognised on service completion basis or time proportionate basis over the period of contract.
Syndication and other loan related services	The services include processing for credit, setting up credit limits, documentation, security and agency services and prepayment and closure of credit facilities. Syndication and other loan related services charges are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.	The Bank recognises revenue on completion of service basis or on time proportion basis.
Advisory and asset management services	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 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. 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.	Advisory income is recognised on satisfaction of performance obligation at a point in time or over a period of time or on achievement of agreed milestones as per contract. Asset management income is recognised on time proportion basis or on completion of performance obligations as per the terms of the contract.

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

3. MATERIAL ACCOUNTING POLICIES (continued)

institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

3.19 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.

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:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- 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.

3.20 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.

3.21 Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail Banking, Wholesale Banking, International banking, Islamic Banking and Funding centre. Segment results are reported to the Chief Executive Officer of the Bank, and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.22 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.

3.23 Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Financial Services Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

3.24 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.

2.25 Earnings per share

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

2.26 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.

2.27 Acceptances

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

4. CASH AND BALANCES WITH CENTRAL BANKS

	2024	2023
	RO'000	RO'000
Cash	**34,799**	34,862
Other balances with Central Banks	**267,213**	369,115
Cash and cash equivalents	**302,012**	403,977
Capital deposit with Central Bank of Oman	**500**	500
Cash and balances with Central Banks	**302,512**	404,477

i. At 31 December 2024, cash and balances with Central Bank of Oman included balances amounting to RO 500,000 (2023: 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 2024 is 3% (2023: 3%) of total customer's deposits and for Central Bank of UAE, is 1% (2023: 1%) of time deposits and 11% (2023: 11%) 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

	2024	2023
	RO'000	RO'000
Loans and advances to Banks	**26,757**	12,512
Placement with Banks	**322,398**	191,985
Demand balances	**23,315**	120,473
Due from Banks and other money market placement	**372,470**	324,970
Less: allowance for credit losses (note 27.3)	**(106)**	(50)
Due from Banks and other money market placement	**372,364**	324,920

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 31.1 to the consolidated financial statements.

6. LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS

	2024	2023
	RO'000	RO'000
Overdrafts	**78,564**	68,857
Personal loans	**1,538,728**	1,506,805
Loans against trust receipts	**63,653**	54,818
Bills discounted	**15,194**	10,850
Term loans, Islamic financing and others	**2,394,567**	2,023,113
Gross Loans, advances and Islamic financing assets for customers	**4,090,706**	3,664,443
Less: allowance for credit losses	**(164,559)**	(157,683)
Loans, advances and Islamic financing assets for customers	**3,926,147**	3,506,760

6. LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS (continued)

Gross Loans, advances and Islamic financing assets for customers include RO 118 million due from related parties at 31 December 2024 (2023 – RO 78 million) (refer note 28).

Included in above the Islamic financing asset (net of allowance for credit losses) of RO 352 million as at 31 December 2024 (31 December 2023 – RO 275 million).

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

	2024	2023
	RO'000	RO'000
Balance at beginning of year	**157,683**	158,695
Provided during the year	**31,874**	30,937
Recovered / released during the year	**(6,411)**	(7,095)
Written off during the year	**(18,587)**	(24,854)
Balance at end of year	**164,559**	157,683

Provided during the period includes contractual interest reserved for RO 8.73 million (2023 – RO 9.12 million).

Recovered/released during the period includes recovery of reserved interest for RO 3.03 million (2023 – RO 4.07 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 2024, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 191 million (2023 – RO 163 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 31.1 to the consolidated financial statements.

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

	2024	2023
	RO'000	RO'000
Personal	**1,538,728**	1,506,805
Financial institutions	**371,012**	243,976
Service	**323,942**	302,950
Electricity, gas and water	**311,554**	238,525
Transport and communication	**281,746**	275,049
Mining and quarrying	**230,435**	192,539
Manufacturing	**219,234**	193,719
Government	**218,597**	211,560
Construction	**200,866**	165,200
Wholesale and retail trade	**160,203**	164,436
Others	**143,283**	98,981
Import trade	**71,552**	62,092
Agriculture	**10,529**	8,611
Export trade	**9,025**	-
Total	**4,090,706**	3,664,443

6. LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS (continued)

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

	2024	2023
	RO'000	RO'000
Sultanate of Oman	**3,932,151**	3,555,299
United Arab Emirates	**135,402**	102,047
Others	**23,153**	7,097
Total	**4,090,706**	3,664,443

7. INVESTMENT SECURITIES

	2024	2023
	RO'000	RO'000
Investments measured at Fair value through profit and loss (FVTPL)		
Quoted investments – Oman	**2,052**	1,671
Quoted investments – foreign	**166**	181
Unquoted Investments in funds	**2,648**	2,585
Total FVTPL investments	**4,866**	4,437
Investments measured at Fair value through other comprehensive income (FVOCI)		
FVOCI – Equity investments		
Quoted investments – Oman	**52,167**	33,860
Quoted investments – foreign	**44,437**	28,056
Total FVOCI investments	**96,604**	61,916
Investments measured at amortised cost		
Government development bonds - Oman	**260,044**	231,201
Government sukuk – Oman	**31,832**	22,292
Quoted investments – Oman	**45,632**	45,483
Treasury Bills	**18,772**	81,000
Quoted investments- Foreign	**16,202**	15,853
Total – amortised cost	**372,482**	395,829
Total investment securities	**473,952**	462,182
Less: allowance for credit losses (note 27.3)	**(559)**	(526)
Total investment securities	**473,393**	461,656

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
2024	%	**RO'000**
Government Development Bonds-Oman	**62%**	**291,876**
2023		
Government Development Bonds-Oman	55%	253,493
Treasury Bills	18%	81,000

In 2024, the Bank received dividends of RO 4.24 million from its FVOCI equities (2023: RO 2.26 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 31.1 to the consolidated financial statements.

The Bank designated certain investments as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale and there are no plans to dispose of these investments in the short or medium term. This designation is irrevocable.

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

	2024	2023
	RO'000	RO'000
Rated	**61,834**	61,336
Sovereign	**310,648**	334,493
	372,482	395,829

The movement in investment securities are summarised below:

	2024	2023
	RO'000	RO'000
Balance at beginning of year	**461,656**	408,972
Additions	**95,975**	92,470
Disposals and redemption	**(84,734)**	(41,572)
Gain from changes in Fair Value	**(382)**	437
Provision of impairment Losses	**(33)**	(92)
Loss on sale – FVOCI	**(1)**	(1,055)
Amortization of discount	**535**	1,260
Movement in accrued interest	**224**	(544)
Profit on investments at FVTPL and amortised cost	**153**	780
Balance at end of year	**473,393**	461,656

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

Government Sukuk - Oman of RO 19.21 million (31 December 2023: nil) are assigned as collateral against USD borrowings of RO 12.63 million (31 December 2023: nil).

8. OTHER ASSETS

	2024	2023
	RO'000	RO'000
Customers' indebtedness for acceptances (note 12)	80,066	27,373
Less: allowance for credit losses	(220)	-
Net customers' indebtedness for acceptances	79,846	27,373
Prepayment and others	16,079	26,915
Positive fair value of derivatives (note 35)	12,737	14,012
	108,662	68,300

9. 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 2024, net of accumulated	43,339	9,469	1,260	1,825	55,893
Depreciation					
Additions	4,142	1,872	2,460	1,599	10,073
Disposals	-	(87)	(85)	-	(172)
Transfers	188	2,397	(2,585)	-	-
Depreciation	(1,651)	(3,008)	-	(1,668)	(6,327)
Balance at 31 December 2024, net of accumulated depreciation	46,018	10,643	1,050	1,756	59,467
At cost	65,485	53,442	1,050	3,680	123,657
Accumulated depreciation	(19,467)	(42,799)	-	(1,924)	(64,190)
Net carrying value at 31 December 2024	46,018	10,643	1,050	1,756	59,467
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Freehold land and buildings and leasehold improvements include land at a cost of RO 12.68 million (2023 – RO 8.56 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.

Expenses relating to short term leases for 31 December 2024 was RO 0.3 million (31 December 2023: RO 0.4 million).

10. DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

	2024	2023
	RO'000	RO'000
Borrowings	178,540	397,263
Demand balances	14,398	16,946
	192,938	414,209

Borrowings include bank borrowings amounting to RO 12.63 million (December 2023: nil) with underlying collateral in the form of Government Sukuk – Oman of RO 19.21 million (December 2023: nil).

11. CUSTOMERS' DEPOSITS

	2024	2023
	RO'000	RO'000
Term deposits	2,044,017	1,847,426
Current accounts	1,526,142	1,202,592
Savings accounts	558,364	559,925
	4,128,523	3,609,943

12. OTHER LIABILITIES

	2024	2023
	RO'000	RO'000
Liabilities under acceptances (note 8)	80,066	27,373
Other liabilities and accrued expenses	32,008	53,993
Negative fair value of derivatives (note 35)	11,886	13,968
Allowances for credit losses for loan commitments and financial guarantees	4,047	4,487
Staff entitlements	2,541	2,297
Deferred tax liability (note 13)	2,169	845
Lease liabilities	1,083	1,372
	133,800	104,335

12 OTHER LIABILITIES (continued)

Staff entitlements are as follows:

	2024	2023
	RO'000	RO'000
End of service benefits	1,922	1,727
Other liabilities	619	570
Total	2,541	2,297

Movement in the lease liabilities:

	2024	2023
	RO'000	RO'000
Balance at beginning of year	1,372	1,330
Additions during the year	1,329	2,250
Finance charges on lease	47	52
Lease payments	(1,665)	(2,260)
Balance at year end	1,083	1,372

Maturity analysis of lease liabilities:

	2024	2023
	RO'000	RO'000
1 to 5 years	993	1,282
Over 5 years	90	90
Balance at year end	1,083	1,372

13. TAXATION

	2024	2023
	RO'000	RO'000
Tax expense		
Current tax expense	10,134	10,099
Deferred tax	1,010	132
Total tax expenses for the year	11,144	10,231

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

	2024	2023
• Sultanate of Oman (of consolidated taxable income)	15%	15%
• United Arab Emirates (of taxable income)		
a. National level	9%	-
b. Emirates level	20%	20%
• Egypt (of taxable income)	22.5%	22.5%

For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 15% (2023: 15%).

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

	2024	2023
	RO'000	RO'000
Accounting profit	74,207	68,260
Tax at applicable rate	11,131	10,239
Tax exempt revenues	(635)	(297)
Others	(362)	157
	10,134	10,099

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

The Bank's liabilities for taxation in the Sultanate of Oman have been assessed and agreed up to the year ended 31 December 2020.

Management believes that additional taxes, if any, in respect of open tax assessments would not be significant to the Bank's consolidated financial position as at 31 December 2024.

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 2023.

Tax liability

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

	2024	2023
	RO'000	RO'000
At 1 January	18,976	15,981
Charge for the year	10,134	10,099
Payments during the year	(9,997)	(7,078)
Translation difference and others	10	(26)
At 31 December	19,123	18,976

13. TAXATION (continued)

	2024	2023
	RO'000	RO'000
Through comprehensive income	**10,134**	10,099
Through prior years	**8,989**	8,877
	19,123	18,976

Recognised deferred tax liabilities

The deferred tax liability has been recognised at the effective tax rate of 15% (2023 - 15%). Deferred tax liability in the statement of financial position and the deferred tax charge in the statement of profit or loss and other comprehensive income relates to the tax effect of provisions and change in fair value of FVOCI investment which give rise to deferred tax liabilities are as follows:

Deferred tax liabilities are attributable to the following:

	2024	2023
	RO'000	RO'000
Deductible temporary differences relating to provisions	**1,172**	164
FVOCI investments	**997**	681
	2,169	845

Movement of deferred tax liability

	2024	2023
	RO'000	RO'000
Balance at the beginning of the year	**845**	549
Provided during the year	**1,010**	132
Tax effect of equity investments at FVOCI – net change in fair value	**314**	164
	2,169	845

14. SHARE CAPITAL

The Authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (2023 – 2,000,000,000 of RO 0.100 each). At 31 December 2024, 1,625,946,355 shares of RO 0.100 each (2023 – 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:

	2024		2023	
	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%

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

15. SHARE PREMIUM

The share premium of RO 34.47 million (2023 – RO 34.47 million) represents the premium collected on issue of shares by the bank through a private placement in prior years. This is not available for distributions.

16. 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. 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. At 31 December 2024, the legal reserve has reached one third of the issued capital.

17. OTHER RESERVES

	FVOCI	**Impairment reserve**	**Total**
	RO '000	**RO '000**	**RO '000**
At 1 January 2024	**(2,698)**	**10,580**	**7,882**
Net movement on FVOCI	**(381)**	**-**	**(381)**
Tax effect of net results on FVOCI	**(314)**	**-**	**(314)**
Transfer from retained earnings	**-**	**4,242**	**4,242**
At 31 December 2024	**(3,393)**	**14,822**	**11,429**

	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

The impairment reserve represents excess of impairment allowance (net of tax) calculated as per CBO norms and IFRS 9. The reserve is not available for distribution to the shareholders.

18. 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 key features of the instruments are as follows:

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

The determination of equity classification of these instruments requires significant judgement as certain clauses, particularly the "Events of Default", require interpretation. The Directors, after factoring in the clauses relating to the write-down, non-payment and

18. TIER 1 PERPETUAL BOND (continued)

subordination in the instrument offering document, consider that the Bank will not reach the point of insolvency before a write-down is affected due to a non-viability event. Accordingly, such clauses were assessed by the Directors as not being genuine for the purpose of determining the debt vs equity classification. The Directors have considered appropriate independent legal advice in forming their judgement around this matter.

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
October 2024	USD 150.40 million (OMR 57.90 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).

19. DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.0094 per share totalling RO 15.3 million for the year ended 31 December 2024 [2023: RO 0.0085 per share totalling RO 13.8 million], which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2025.

20. 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.

20.1 Contingent liabilities

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

	2024	2023
	RO'000	RO'000
Guarantees	**262,589**	275,229
Documentary letters of credit	**50,068**	39,232
	312,657	314,461

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

	2024	2023
	RO'000	RO'000
Construction	**92,105**	88,150
Financial Institutions	**44,775**	42,591
Service	**42,985**	51,949
Wholesale and Retail Trade	**38,403**	35,276
Manufacturing	**35,298**	56,547
Transport and Communication	**23,147**	24,870
Electricity, Gas & Water	**21,227**	2,155
Mining & Quarrying	**8,998**	9,586
Agriculture	**4,701**	1,045
Others	**936**	2,078
Personal	**82**	214
	312,657	314,461

20.2 Commitments

	2024	2023
	RO'000	RO'000
Undrawn commitment	**140,363**	108,130
Capital expenditure	**1,602**	1,615

20.3 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.

	2024	2023
	RO'000	RO'000
UAE branch	**40,918**	40,918
Egypt branch	**19,250**	19,250
	60,168	60,168

20.4 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 consolidated financial statements.

20. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

20.5 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:

	2024	2023
	RO'000	RO'000
Fund under management	135,820	127,295

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.

	2024	2023
	RO'000	RO'000
Carrying amount of funds invested	617	594

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.

	2024	2023
	RO'000	RO'000
Fund under management	12,075	11,881
Commission and fees	141	300

21. INTEREST INCOME

	2024	2023
	RO'000	RO'000
Interest from customers	208,530	191,581
Interest from banks	17,499	11,730
Interest from investments	24,645	23,042
	250,674	226,353

Interest bearing assets have an average effective annual rate of 6.04% per annum for the year ended 31 December 2024 (2023 – 5.91% per annum).

22. INTEREST EXPENSE

	2024	2023
	RO'000	RO'000
Interest to customers	130,405	89,377
Interest to banks	17,835	19,647
Interest on Euro medium term notes (EMTN)	-	12,864
	148,240	121,888

For the year ended 31 December 2024, the average effective annual cost of funds was 3.87% per annum (2023 – 3.50% per annum).

23. FEE AND COMMISSION INCOME

	2024	2023
	RO'000	RO'000
Fee and commission income	37,836	32,957
Less: Fee and commission expenses	(12,796)	(11,708)
Net fee and commission income	25,040	21,249

The disaggregation of net fee and commission income is provided under note 33.

24. OTHER OPERATING INCOME

	2024	2023
	RO'000	RO'000
Net gains from foreign exchange dealings	8,208	6,585
Dividend income	4,346	2,258
Gain on investments at FVTPL and amortised cost	153	780
Miscellaneous income	4,796	4,453
	17,503	14,076

25. STAFF COSTS

	2024	2023
	RO'000	RO'000
Employees' salaries	**28,062**	27,487
Contribution to social insurance schemes	**2,701**	2,500
Other staff costs	**8,609**	8,225
	39,372	38,212

The Bank employed 1,434 employees as of 31 December 2024 (2023 - 1,413 employees).

26. OTHER OPERATING EXPENSES

	2024	2023
	RO'000	RO'000
Establishment costs	4,003	4,575
Operating and administration costs	12,873	12,615
Directors' remuneration and sitting fees	408	408
	17,284	17,598

27. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

27.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2024:

Impairment charge and provision held as of 31 December 2024

Particular	As per CBO Norms	As per IFRS 9	Difference
	RO'000	RO'000	RO'000
Impairment Loss charged to profit and loss	**-**	**14,136**	**NA**
Provisions required	**186,929**	**169,491**	**(17,438)**
Gross non-performing loan ratio (percentage)	**-**	**4.7**	**-**
Net non-performing loan ratio (percentage)	**-**	**4.0**	**-**

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	**3,342,348**	**43,160**	**10,573**	**32,587**	**3,331,775**	**-**
	Stage 2	**381,840**	**4,151**	**7,122**	**(2,971)**	**374,718**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**
Subtotal		**3,724,188**	**47,311**	**17,695**	**29,616**	**3,706,493**	**-**
Special Mention	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**175,942**	**1,800**	**25,594**	**(23,794)**	**150,348**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**
Subtotal		**175,942**	**1,800**	**25,594**	**(23,794)**	**150,348**	-
Substandard	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**31,788**	**7,390**	**20,834**	**(12,809)**	**10,954**	**635**
Subtotal		**31,788**	**7,390**	**20,834**	**(12,809)**	**10,954**	**635**
Doubtful	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**25,567**	**10,496**	**13,831**	**(387)**	**11,736**	**2,948**
Subtotal		**25,567**	**10,496**	**13,831**	**(387)**	**11,736**	**2,948**
Loss	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**133,221**	**93,475**	**86,605**	**29,744**	**46,616**	**22,874**
Subtotal		**133,221**	**93,475**	**86,605**	**29,744**	**46,616**	**22,874**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	**1,380,782**	**-**	**1,083**	**(1,083)**	**1,379,699**	**-**
	Stage 2	**194,845**	**-**	**2,618**	**(2,618)**	**192,227**	**-**
	Stage 3	**4,923**	**-**	**1,231**	**(1,231)**	**3,692**	**-**
Subtotal		**1,580,550**	**-**	**4,932**	**(4,932)**	**1,575,618**	**-**
Total	Stage 1	**4,723,130**	**43,160**	**11,656**	**31,504**	**4,711,474**	**-**
	Stage 2	**752,627**	**5,951**	**35,334**	**(29,383)**	**717,293**	**-**
	Stage 3	**195,499**	**111,361**	**122,501**	**15,317**	**72,998**	**26,457**
	Total	**5,671,256**	**160,472**	**169,491**	**17,438**	**5,501,765**	**26,457**

27. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

27.1 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 2023

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

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	2,746,178	37,567	5,719	31,848	2,740,459	-
	Stage 2	579,301	6,143	8,852	(2,709)	570,449	-
	Stage 3	-	-	-	-	-	-
Subtotal		3,325,479	43,710	14,571	29,139	3,310,908	-
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	3,846	(668)	8,342	167
Subtotal		12,188	3,011	3,846	(668)	8,342	167
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	22,833	9,635	11,586	122	11,247	2,073
Subtotal		22,833	9,635	11,586	122	11,247	2,073
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	128,463	91,759	84,750	27,974	43,713	20,965

Mapping of IFRS 9 and CBO norms (continued)

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)
Subtotal		128,463	91,759	84,750	27,974	43,713	20,965
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,413,430	-	939	(939)	1,412,491	-
	Stage 2	156,698	-	2,846	(2,846)	153,852	-
	Stage 3	5,112	-	1,278	(1,278)	3,834	-
Subtotal		1,575,240	-	5,063	(5,063)	1,570,177	-
Total	Stage 1	4,159,608	37,567	6,658	30,909	4,152,950	-
	Stage 2	911,479	7,954	54,628	(46,674)	856,851	-
	Stage 3	168,596	104,405	101,460	26,150	67,136	23,205
	Total	5,239,683	149,926	162,746	10,385	5,076,937	23,205

27.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2024:

Restructured loans

Amounts in RO'000

Asset classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required 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	**181,735**	**1,854**	**23,088**	**(21,234)**	**158,647**	-
	Stage 3	-	-	-	-	-	-
Subtotal		**181,735**	**1,854**	**23,088**	**(21,234)**	**158,647**	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**58,935**	**29,793**	**38,914**	**(4,894)**	**20,021**	**4,227**
Subtotal		**58,935**	**29,793**	**38,914**	**(4,894)**	**20,021**	**4,227**
Total	Stage 1	-	-	-	-	-	-
	Stage 2	**181,735**	**1,854**	**23,088**	**(21,234)**	**158,647**	-
	Stage 3	**58,935**	**29,793**	**38,914**	**(4,894)**	**20,021**	**4,227**
	Total	**240,670**	**31,647**	**62,002**	**(26,128)**	**178,668**	**4,227**

27. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

27.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2024: (continued)

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 classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required 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
Sub total		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

27.3 Movement in expected credit losses (ECL) as at 31 December 2024

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Exposure subject to ECL				
Central bank balances	302,512	-	-	302,512
Due from banks and other money market placements	372,470	-	-	372,470
Loans, advances and Islamic financing assets	3,342,348	557,782	190,576	4,090,706
Investment securities (debt)	372,482	-	-	372,482
Acceptances	43,656	36,410	-	80,066
Contingent liabilities and commitments	289,662	158,435	4,923	453,020
	4,723,130	752,627	195,499	5,671,256

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Opening Balance – as at 1 January 2024				
Central bank balances	-	-	-	-
Due from banks and other money market placements	50	-	-	50
Loans, advances and Islamic financing assets	5,718	51,783	100,182	157,683
Investment securities (debt)	526	-	-	526
Acceptances	-	-	-	-
Contingent liabilities and commitments	363	2,845	1,279	4,487
	6,657	54,628	101,461	162,746
Net transfer between stages				
Central bank balances	-	-	-	-
Due from banks and other money market placements	-	-	-	-
Loans, advances and Islamic financing assets	304	(27,083)	26,779	-
Investment securities (debt)	-	-	-	-
Acceptances	-	-	-	-
Contingent liabilities and commitments	(77)	77	-	-
	227	(27,006)	26,779	-
Charge / (release) for the period (net)				
Central bank balances	-	-	-	-
Due from banks and other money market placements	56	-	-	56
Loans, advances and Islamic financing assets	4,551	8,016	12,896	25,463
Investment securities (debt)	33	-	-	33
Acceptances	93	127	-	220
Contingent liabilities and commitments	39	(431)	(48)	(440)
	4,772	7,712	12,848	25,332
Write off for the period				
Loans, advances and Islamic financing assets	-	-	(18,587)	(18,587)
	-	-	(18,587)	(18,587)
Closing Balance – as at 31 December 2024				
Central bank balances	-	-	-	-
Due from banks and other money market placements	106	-	-	106
Loans, advances and Islamic financing assets	10,573	32,716	121,270	164,559
Investment securities (debt)	559	-	-	559
Acceptances	93	127	-	220
Contingent liabilities and commitments	325	2,491	1,231	4,047
	11,656	35,334	122,501	169,491

27. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

27.3 Movement in expected credit losses (ECL) as at 31 December 2023 (continued)

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Exposure subject to ECL				
Central bank balances	404,477	-	-	404,477
Due from banks and other money market placements	324,970	-	-	324,970
Loans, advances and Islamic financing assets	2,746,178	754,781	163,484	3,664,443
Investment securities (debt)	395,829	-	-	395,829
Acceptances	18,651	8,722	-	27,373
Contingent liabilities and commitments	269,503	147,976	5,112	422,591
	4,159,608	911,479	168,596	5,239,683
Opening Balance – as at 1 January 2023				
Central bank balances	-	-	-	-
Due from banks and other money market placements	20	-	-	20
Loans, advances and Islamic financing assets	5,485	43,487	109,723	158,695
Investment securities (debt)	312	122	-	434
Acceptances	-	-	-	-
Contingent liabilities and commitments	577	1,900	-	2,477
	6,394	45,509	109,723	161,626
Net transfer between stages				
Central bank balances	-	-	-	-
Due from banks and other money market placements	-	-	-	-
Loans, advances and Islamic financing assets	234	(5,533)	5,299	-
Investment securities (debt)	-	-	-	-
Acceptances	-	-	-	-
Contingent liabilities and commitments	(1,071)	1,071	-	-
	(837)	(4,462)	5,299	-
Charge / (release) for the period (net)				
Central bank balances	-	-	-	-
Due from banks and other money market placements	30	-	-	30
Loans, advances and Islamic financing assets	-	13,828	10,014	23,842
Investment securities (debt)	214	(122)	-	92
Acceptances	-	-	-	-
Contingent liabilities and commitments	857	(125)	1,278	2,010
	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				
Central bank balances	-	-	-	-
Due from banks and other money market placements	50	-	-	50
Loans, advances and Islamic financing assets	5,719	51,782	100,182	157,683
Investment securities (debt)	526	-	-	526
Acceptances	-	-	-	-
Contingent liabilities and commitments	363	2,846	1,278	4,487
	6,658	54,628	101,460	162,746

27.4 Movement in gross exposure

27.4 (a) Movement in loans, advances and Islamic financing assets

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2024	RO'000	RO'000	RO'000	RO'000
Opening Balance - as at 1 January 2024	**2,746,178**	**754,781**	**163,484**	**3,664,443**
Transfer to stage 1	**95,919**	**(95,268)**	**(651)**	**-**
Transfer to stage 2	**(13,534)**	**13,776**	**(242)**	**-**
Transfer to stage 3	**(5,552)**	**(66,546)**	**72,098**	**-**
New loans, advances and Islamic financing assets	**1,071,569**	**98,561**	**-**	**1,170,130**
Recovery of loans, advances and Islamic financing assets	**(552,232)**	**(147,522)**	**(25,526)**	**(725,280)**
Write off for the period	**-**	**-**	**(18,587)**	**(18,587)**
Closing Balance - as at 31 December 2024	**3,342,348**	**557,782**	**190,576**	**4,090,706**
As at 31 December 2023				
Opening Balance - as at 1 January 2023	2,813,066	538,141	173,112	3,524,319
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	(924,207)	(46,222)	(6,925)	(977,354)
Write off for the period	-	-	(24,854)	(24,854)
Closing Balance - as at 31 December 2023	2,746,178	754,781	163,484	3,664,443

27. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

27.4 Movement in gross exposure (continued)

27.4 (b) Movement in contingent liabilities and commitments

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2024	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Opening Balance - as at 1 January 2024	**269,503**	**147,976**	**5,112**	**422,591**
Transfer to stage 1	**16,555**	**(16,555)**	**-**	**-**
Transfer to stage 2	**(13,731)**	**13,731**	**-**	**-**
Transfer to stage 3	**-**	**(174)**	**174**	**-**
Originated during the year	**22,610**	**29,674**	**-**	**52,284**
Derecognised during the year (other than write offs)	**(5,275)**	**(16,217)**	**(363)**	**(21,855)**
Write off for the period	**-**	**-**	**-**	**-**
Closing Balance - as at 31 December 2024	**289,662**	**158,435**	**4,923**	**453,020**
As at 31 December 2023				
Opening Balance - as at 1 January 2023	415,845	102,355	6,191	524,391
Transfer to stage 1	18,039	(18,039)	-	-
Transfer to stage 2	(69,317)	69,317	-	-
Transfer to stage 3	-	(78)	78	-
Originated during the year	21,136	15,638	720	37,494
Derecognised during the year (other than write offs)	(116,200)	(21,217)	(1,877)	(139,294)
Write off for the period	-	-	-	-
Closing Balance - as at 31 December 2023	269,503	147,976	5,112	422,591

27.4 (c) Movement in due from banks and other money market placements

	Stage1	Stage2	Stage3	Total
As at 31 December 2024	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Exposure subject to ECL				
Opening Balance - as at 1 January 2024	**324,970**	**-**	**-**	**324,970**
Transfer to stage 1	**-**	**-**	**-**	**-**
Transfer to stage 2	**-**	**-**	**-**	**-**
Transfer to stage 3	**-**	**-**	**-**	**-**
Originated during the year (net)	**47,500**	**-**	**-**	**47,500**
Closing Balance - as at 31 December 2024	**372,470**	**-**	**-**	**372,470**

27.4 (c) Movement in due from banks and other money market placements (continued)

	Stage1	Stage2	Stage3	Total
As at 31 December 2023				
Exposure subject to ECL				
Opening Balance - as at 1 January 2023	119,764	-	-	119,764
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Originated during the year (net)	205,206	-	-	205,206
Closing Balance - as at 31 December 2023	324,970	-	-	324,970

27.4 (d) Movement in Acceptances

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2024	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Exposure subject to ECL				
Opening Balance - as at 1 January 2024	**18,651**	**8,722**	**-**	**27,373**
Transfer to stage 1	**976**	**(976)**	**-**	**-**
Transfer to stage 2	**(9,692)**	**9,692**	**-**	**-**
Transfer to stage 3	**-**	**-**	**-**	**-**
Originated during the year	**40,052**	**21,647**	**-**	**61,699**
Derecognised during the year	**(6,331)**	**(2,675)**	**-**	**(9,006)**
Closing Balance - as at 31 December 2024	**43,656**	**36,410**	**-**	**80,066**
As at 31 December 2023				
Exposure subject to ECL				
Opening Balance - as at 1 January 2023	28,983	12,175	-	41,158
Transfer to stage 1	1,013	(1,013)	-	-
Transfer to stage 2	(3,091)	3,091	-	-
Transfer to stage 3	-	-	-	-
Originated during the year	12,867	2,267	-	15,134
Derecognised during the year	(21,121)	(7,798)	-	(28,919)
Closing Balance - as at 31 December 2023	18,651	8,722	-	27,373

27. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

27.4 (e) Movement in investment securities (debt)

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2024	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Exposure subject to ECL				
Opening Balance - as at 1 January 2024	**395,829**	**-**	**-**	**395,829**
Transfer to stage 1	**-**	**-**	**-**	**-**
Transfer to stage 2	**-**	**-**	**-**	**-**
Transfer to stage 3	**-**	**-**	**-**	**-**
Originated during the year	**61,385**	**-**	**-**	**61,385**
Derecognised during the year	**(84,732)**	**-**	**-**	**(84,732)**
Closing Balance - as at 31 December 2024	**372,482**	**-**	**-**	**372,482**
As at 31 December 2023				
Exposure subject to ECL				
Opening Balance - as at 1 January 2023	357,361	-	-	357,361
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Originated during the year	79,091	-	-	79,091
Derecognised during the year	(40,623)	-	-	(40,623)
Closing Balance - as at 31 December 2023	395,829	-	-	395,829

27.4 (f) Movement in central bank balances

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2024	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Exposure subject to ECL				
Opening Balance - as at 1 January 2024	404,477	-	-	404,477
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Originated during the year	-	-	-	-
Derecognised during the year	(101,965)	-	-	(101,965)
Closing Balance - as at 31 December 2024	302,512	-	-	302,512

27.4 (f) Movement in central bank balances (continued)

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2023				
Exposure subject to ECL				
Opening Balance - as at 1 January 2023	261,597	-	-	261,597
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Originated during the year	142,880	-	-	142,880
Derecognised during the year	-	-	-	-
Closing Balance - as at 31 December 2023	404,477	-	-	404,477

27.5 Movement in impairment credit losses for the period ended 31 December 2023

	2024	2023
Impairment of allowances for credit losses:	**RO'000**	RO'000
Due from Banks and other money market placements	**(56)**	(30)
Loans, advances and Islamic financing assets	**(23,146)**	(21,816)
Investment Securities (debt)	**(33)**	(92)
Acceptances	**(220)**	-
Contingent liabilities and commitments	**440**	(2,010)
Total	**(23,015)**	(23,948)
Recoveries and releases from provision for credit losses	**3,386**	3,023
Recoveries and releases from loans, advances and Islamic financing assets written off	**5,493**	5,227
Total	**8,879**	8,250
Net impairment losses	**(14,136)**	(15,698)

The most significant changes to ECL allowances is due to the allowances for credit losses on loans, advances and Islamic financing assets of RO 23.1 million relating to underlying credit quality changes, including the credit quality impact of financial instruments transferring between stages. The charge was partially offset by recoveries and releases of RO 8.8 million as provided in the table above.

28. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise principal shareholders, directors and key management personnel of the Bank. Key management personnel comprise those individuals of the Bank who are involved in the strategic planning and decision making of the Bank. The terms of these transactions are approved by the Bank's management and are made on terms agreed by the Board of Directors.

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. 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.

28. RELATED PARTY TRANSACTIONS (continued)

Principal shareholders of the Bank includes those shareholdes who exercises significant influence on the Bank and their close family members. Other related parties include transactions with key management personnel, directors and transactions with those entities which are controlled by either the principal shareholders or key management personnel or directors of the Bank.

The aggregate amounts of balances with such related parties are as follows:

	2024			2023		
	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	-	117,932	117,932	-	77,993	77,993
Customers' deposits	330	42,005	42,335	141,494	55,798	197,292
Due from Banks	147	-	147	35,106	-	35,106
Due to Banks	175	-	175	122	-	122
Letter of credit, guarantees and acceptance	667	4,868	5,535	850	11,109	11,959
Investment	2,679	619	3,298	2,630	594	3,224

The statement of profit or loss and other comprehensive income includes the following amounts in relation to transactions with related parties:

	2024			2023		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Interest income	303	6,056	6,359	53	4,284	4,337
Commission income	6	581	587	9	449	458
Interest expense	-	740	740	7,691	1,383	9,074
Other expenses	-	1,724	1,724	-	766	766

The above transactions and outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

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:

	2024	2023
	RO'000	RO'000
Loans, advances and Islamic financing assets	900	1,763
Customers' deposits	1,255	1,405

The income and expenses in respect of these related parties included in the financial statement are as follows:

	2024	2023
	RO'000	RO'000
Interest Income	32	43
Interest Expense	57	36
Salaries and other short-term benefits	4,355	3,942
Post-employment benefits	90	66

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

29. BASIC AND DILUTED EARNINGS PER SHARE

	2024	2023
	RO'000	RO'000
Net Profit after tax (RO'000)	63,063	58,029
Less: Interest on Tier 1 perpetual bond (RO'000)	(12,725)	(12,725)
Profit attributable to shareholders (RO'000)	50,338	45,304
Weighted average number of shares outstanding during the year (in '000)	1,625,946	1,625,946
Basic and diluted earnings per share (RO)	0.031	0.028

30. CAPITAL ADEQUACY

CBO regulations govern regulatory capital requirements for the Bank; in addition, the overseas branches in UAE is also supervised by their local regulators - CBUAE. The capital management process for the Bank is linked to the overall business strategy to ensure that capital is adequate to the level of inherent risk in the business and within the Bank's capital risk appetite. The Bank conducts capital planning in conjunction with the financial budgeting exercise. 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

30. CAPITAL ADEQUACY (continued)

Capital management (continued)

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.

As per CBO guidelines, the Bank needs to maintain capital adequacy ratio (CAR) at a minimum of 13.5% (including the capital conservation buffer) as at 31 December 2024. The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

	2024	2023
	RO'000	RO'000
Capital base		
Common equity Tier 1 - shareholders' funds	503,091	477,088
Additional Tier 1 – capital	225,037	167,133
Tier 2 - subordinated debt and eligible impairment provisions	19,165	22,539
Total capital base	**747,293**	666,760
Risk weighted assets		
Credit risk	3,996,512	3,599,409
Operational risk	272,144	254,659
Market risk	94,013	87,555
Total risk weighted assets	**4,362,669**	3,941,623
Common Equity Tier 1 Ratio	**11.5%**	12.1%
Tier 1 Ratio	**16.7%**	16.3%
Risk asset ratio (Basel II norms)	**17.1%**	16.9%

For more details refer Basel II Pillar III disclosure as provided by the Bank in its annual report.

31. 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.

31.1 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 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. 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. Regular updates are provided to the approving committees regarding the status of the loan portfolio.

31. RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

Based on the prevailing market conditions, the Bank sustained its continuous monitoring of the portfolio with a thorough review and amendments 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. Ongoing efforts for implementing 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

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 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 2024	Gross maximum exposure 2023
	RO'000	RO'000
Balances with Central Banks	267,713	369,615
Due from Banks and other money market placements	372,470	324,970
Loans, advances and financing activities for customers	4,090,706	3,664,443
Investment securities (debt)	372,482	395,829
Other assets	96,145	54,288
Derivatives	12,737	14,012
Total on balance sheet exposure	**5,212,253**	4,823,157
Guarantees	262,589	275,229
Documentary letters of credit	50,068	39,232
Undrawn commitment	140,363	108,130
Total off-balance sheet exposure	**453,020**	422,591

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The above table represents the maximum credit risk exposure to the Bank at 31 December 2024 and 2023 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.

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 2024	**24,337**	**21,534**	**48,289**	**94,160**
31 December 2023	44,167	20,638	14,926	79,731

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.

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 collateral. While securities such as listed equities are valued regularly, credit policy mandates 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. The Bank's collaterals are located in Oman.

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 loan and advances granted is as follows:

	Performing loans	Non-performing loans	Total loans
	RO'000	RO'000	RO'000
Property	1,295,398	64,502	1,359,900
Equities	373,772	123	373,895
Others	988,156	40,734	1,028,890
Balance As at 31 December 2024	**2,657,326**	**105,359**	**2,762,685**

31. RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

There are no significant changes to the quality of collateral held by the Bank as compared to 31 December 2023.

	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

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 2024:

	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)	**1,879,773**	**237,243**	**-**	**2,117,016**
Performing loans (Grades 6)	**5,571**	**105,072**	**-**	**110,643**
Performing loans (Grades 7)	**-**	**170,768**	**-**	**170,768**
Non-performing loans (Grades 8-10)	**-**	**-**	**153,551**	**153,551**
Gross loans, advances and Islamic financing assets to customers - corporate Banking	**1,885,344**	**513,083**	**153,551**	**2,551,978**
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans	**1,457,004**	**44,699**	**-**	**1,501,703**
Non-performing loans	**-**	**-**	**37,025**	**37,025**
Gross loans, advances and Islamic financing assets to customers - retail Banking	**1,457,004**	**44,699**	**37,025**	**1,538,728**
Total gross loans, advances and Islamic financing assets to customers	**3,342,348**	**557,782**	**190,576**	**4,090,706**
Loss allowance - loans, advances and Islamic financing assets to customers	**10,573**	**32,716**	**121,270**	**164,559**

	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)	**288,519**	**116,819**	**-**	**405,338**
Performing loans (Grades 6)	**1,143**	**38,149**	**-**	**39,292**
Performing loans (Grades 7)	**-**	**3,467**	**-**	**3,467**
Non-performing loans (Grades 8-10)	**-**	**-**	**4,923**	**4,923**
Total gross credit related contingent items and commitment	**289,662**	**158,435**	**4,923**	**453,020**
Loss allowance - contingent liabilities and commitment	**325**	**2,491**	**1,231**	**4,047**
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	**243,961**	**-**	**-**	**243,961**
Performing Banks (B1 to Ba2)	**66,809**	**-**	**-**	**66,809**
Performing Banks (Unrated)	**61,700**	**-**	**-**	**61,700**
Due from Banks and money market placements	**372,470**	**-**	**-**	**372,470**
Loss allowance - due from Banks and money market placements	**106**	**-**	**-**	**106**
Investment securities (debt) (Aa3 to Ba3)	**372,482**	**-**	**-**	**372,482**
Loss allowance – investment securities (debt)	**559**	**-**	**-**	**559**
Acceptances (Grades 1-7)	**43,656**	**36,410**	**-**	**80,066**
Loss allowance – acceptances	**93**	**127**	**-**	**220**

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)	1,307,875	435,282	-	1,743,157
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	1,323,691	707,469	126,478	2,157,638
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans	1,422,487	47,312	-	1,469,799
Non-performing loans	-	-	37,006	37,006
Gross loans, advances and Islamic financing assets to customers - retail Banking	1,422,487	47,312	37,006	1,506,805
Total gross loans, advances and Islamic financing assets to customers	2,746,178	754,781	163,484	3,664,443
Loss allowance - loans, advances and Islamic financing assets to customers	5,719	51,782	100,182	157,683

31. RISK MANAGEMENT (continued)

31.1 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)	267,663	105,128	-	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	269,503	147,976	5,112	422,591
Loss allowance - contingent liabilities and commitment	363	2,846	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)	9,271	-	-	9,271
Due from Banks and money market placements	324,970	-	-	324,970
Loss allowance - due from Banks and money market placements	50	-	-	50
Investment securities (debt) (Aa3 to Ba3)	395,829	-	-	395,829
Loss allowance – Investment securities (debt)	526	-	-	526
Acceptances (Grades 1-7)	18,651	8,722	-	27,373
Loss allowance – acceptances	-	-	-	-

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
- A material decrease in the borrower's turnover or the loss of a major customer
- The debtor (or any legal entity within the debtor's group) filing for Bankruptcy application/protection.

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 IMF'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 (2023: 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	31 December 2024		31 December 2023	
		2025	2026	2024	2025
Real Interest Rate	Base scenario	7.1%	7.1%	7.1%	7.1%
	Upside scenario	6.3%	6.5%	5.9%	6.3%
	Downside scenario	8.4%	8.0%	8.9%	8.4%
GDP	Base scenario	4.0%	4.0%	2.9%	4.0%
	Upside scenario	4.2%	4.1%	4.3%	4.2%
	Downside scenario	3.7%	3.8%	2.9%	3.7%
GDP per capita	Base scenario	0.05%	0.05%	-1.0%	0.05%
	Upside scenario	0.2%	0.2%	0.3%	0.2%
	Downside scenario	-0.2%	-0.1%	-1.0%	-0.2%

The Bank has used 33.33% (2023- 33.33%) weightage for each of the scenario.

31. RISK MANAGEMENT (continued)

31.1 Credit risk (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.

In respect of corporate banking exposures the Bank has adopted a risk rating framework having seven performing loan grades and three nonperforming loan grades. The Bank's internal Risk Rating (RR) risk rates a customer and to associate a default probability to each rating grade. The following is the definition of credit quality classifications as disclosed in note 31.1 for the corporate banking exposures of the Bank.

Risk grade	Explanation
1-5	Probability of meeting financial commitments is high in the event of market disruptions
6	Prabability of meeting financial commitments is moderate in the event of market disruptions
7	Potentially weak loans, where, if left uncorrected, the weakness may result in deterioration of the repayment prospects for the loans or bank's credit position at some future date.
8-10	Defaulted. Paying capacity of borrower requires reassessment and other forms of cash flows may be explored for any further recovery of exposure.

In respect of retail banking exposure the "performing loans" exposures include the retail accounts which are not delinquent by more than 90 days.

For due from banks and money market placements, investment securities and central bank balances the Bank uses the Moody's external credit ratings.

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 customers. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the customer'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 customer operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the customer'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.

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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.

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2024 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

	At 31 December 2024		At 31 December 2023	
Sensitivity of impairment estimates	ECL RO 000's	Impact on ECL RO 000's	ECL RO 000's	Impact on ECL RO 000's
ECL on non-impaired loans under IFRS9	46,990	-	61,286	-
Simulations				
Upside case - 100% weighted	41,155	5,835	53,566	7,720
Base case - 100% weighted	46,623	367	60,793	493
Downside scenario - 100% weighted	53,194	(6,204)	69,498	(8,212)

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

31. RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

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.
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.

Key credit risks which are unique to retail exposures include the following, this is apart from the model criteria which are common to all products as per IFRS 9 standard:

a. Stage 2 asset based on the days past due as per BM 1149
b. Inclusion of watchlist based on the employer of the borrowers status.
c. Restructured accounts have selective and variable treatment based on the central bank guidelines

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 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

31. RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

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 2024 increased the overall loss allowance by 0.48% (31 December 2023- 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.

The bank has formed a Model Oversight Committee. The committee is responsible for all significant modelling decisions related to each step of the model life cycle. The committee must ensure decisions are transparent, justified and documented The committee's main objective is to optimize the ability of models to support decision-making throughout the bank, covering all model types. The Model Oversight Committee is accountable to Senior Management and to the Board, who must ensure that the Model Oversight Committee manages Model Risk appropriately.The committee is required to provide an impartial view of the best modelling approach for the bank. It is expected to remain independent from actual, potential or perceived interests of business lines. Therefore, the majority of the Committee members are not from business lines

Each model is equired to be managed according to a cycle that includes, at a minimum, the following steps:

1. Development,
2. Pre-implementation validation,
3. Implementation,
4. Usage and monitoring,
5. Independent validation, and
6. Recalibration, redevelopment or retirement, if deemed necessary

The duration and frequency of each step is required to be specified in advance for each model and documented accordingly. The responsibility of the Model oversight committee includes the below:

1. Design the bank's appetite for Model Risk to be approved by the Board,
2. Ensure that Model Risk is managed appropriately across the bank,
3. Escalate modelling decisions when necessary,
4. Oversee the objective and strategy of each model,
5. Approve the development of new models,
6. Request the development of new models when necessary,
7. Approve material modelling decisions throughout the model life-cycle,
8. At the end of each cycle, review the validation results and make one of the choices below:
   a. Leave the model unchanged,
   b. Use a temporary adjustment while establishing a remediation plan,
   c. Recalibrate the model,
   d. Redevelop or acquire a new model, or
   e. Withdraw the model without further redevelopment

31.2 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.

31. RISK MANAGEMENT (continued)

31.2 Liquidity risk (continued)

The residual maturity behavioural of the assets, liabilities and equity at 31 December 2024 is as follows:

	On demand and 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	147,115	51,951	199,066	70,472	32,974	103,446	302,512
Due from Banks and other money market placements	306,144	52,745	358,889	7,700	5,775	13,475	372,364
Loans, advances and Islamic financing assets	353,889	287,100	640,989	1,335,962	1,949,196	3,285,158	3,926,147
Investment securities	114,848	26,007	140,855	277,472	55,066	332,538	473,393
Other assets	104,551	4,111	108,662	-	-	-	108,662
Property and equipment	-	-	-	-	59,467	59,467	59,467
Total assets	1,026,547	421,914	1,448,461	1,691,606	2,102,478	3,794,084	5,242,545
Future interest cash inflows	67,352	176,339	243,691	697,862	312,541	1,010,403	1,254,094
Due to Banks and other money market deposits	72,452	30,800	103,252	89,686	-	89,686	192,938
Customers' deposits	739,351	1,110,794	1,850,145	1,561,354	717,024	2,278,378	4,128,523
Other liabilities	129,232	4,527	133,759	41	-	41	133,800
Taxation	19,123	-	19,123	-	-	-	19,123
Shareholders' equity	-	-	-	-	543,124	543,124	543,124
Tier 1 perpetual bonds	-	-	-	-	225,037	225,037	225,037
Total liabilities and shareholders' equity	960,158	1,146,121	2,106,279	1,651,081	1,485,185	3,136,266	5,242,545
Future interest cash outflows	41,254	95,830	137,084	299,115	108,196	407,311	544,395
Total liquidity gap (total assets – total liabilities and sharedholders' equity	66,389	(724,207)	(657,818)	40,525	617,293	657,818	-
Cumulative liquidity gap	66,389	(657,818)	(1,315,636)	(1,275,111)	(657,818)	-	

The Bank has access to committed lines from other banks to meet its liquidity (if required).

The tables below analyses the Bank's financial liabilities into relevant maturity groupings based on their contractual maturities. Where there are no contractual maturities, the balances are considered as "Due on demand".

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	On demand and 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	2,364,192	801,674	3,165,866	962,571	86	962,657	4,128,523
Due to Banks and other money market deposits	72,452	30,800	103,252	89,686	-	89,686	192,938
Other liabilities	129,232	4,527	133,759	41	-	41	133,800
Future interest cash outflows	41,379	96,205	137,584	301,115	109,446	410,561	548,145
Contigent liabilities	453,020	-	453,020	-	-	-	453,020

The maturity profile of the assets, liabilities and equity at 31 December 2023 is as follows:

	On demand and 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	281,530	51,355	332,885	44,914	26,678	71,592	404,477
Due from Banks and other money market placement	291,117	26,950	318,067	6,853	-	6,853	324,920
Loans, advances and Islamic financing assets	397,789	164,117	561,906	1,000,587	1,944,267	2,944,854	3,506,760
Investment securities	148,817	7,885	156,702	230,770	74,184	304,954	461,656
Other assets	61,505	6,538	68,043	257	-	257	68,300
Property and equipment	-	-	-	-	55,893	55,893	55,893
Total assets	1,180,758	256,845	1,437,603	1,283,381	2,101,022	3,384,403	4,822,006
Future interest cash inflows	57,367	149,300	206,667	626,497	300,193	926,690	1,133,357
Due to Banks and other money market deposits	58,084	111,650	169,734	244,475	-	244,475	414,209
Customers' deposits	910,559	1,010,404	1,920,963	1,133,251	555,729	1,688,980	3,609,943
Other liabilities	76,409	6,734	83,143	21,158	34	21,192	104,335
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
Future interest cash outflows	32,608	72,500	105,108	214,606	72,782	287,388	392,496
Total liquidity gap (total assets – total liabilities and sharedholders' equity	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)	-	

31. RISK MANAGEMENT (continued)

31.2 Liquidity risk (continued)

	On demand and 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	910,559	1,010,404	1,920,963	1,133,251	555,729	1,688,980	3,609,943
Due to Banks and other money market deposits	58,084	111,650	169,734	244,475	-	244,475	414,209
Other liabilities	76,409	6,734	83,143	21,158	34	21,192	104,335
Future interest cash outflows	32,608	72,500	105,108	214,606	72,782	287,388	392,496
Contigent liabilities	422,691	-	422,691	-	-	-	422,691

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	2024	2023
LCR	277.58%	384.42%
NSFR	118.71%	115.17%

31.3 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 exposures.

- **Equity risk**

The proprietary equity positions are held in the 'FVOCI' category. The market risk is monitored though periodic 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. If there is adverse impact of 5% on equity investment portfolio, the value of the portfolio may decrease by RO 5.01 million (2023: decrease by RO 3.32 million).

- **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 2024	200 bps increase	200 bps decrease
Earnings impact - RO'000s	9,893	(9,893)

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.

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2024 is as follows:

	Average effective interest rate	On demand and 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	-	-	-	-	302,512	302,512
Due from Banks and other money market placements	5.83%	285,025	52,745	13,475	-	21,119	372,364
Loans, advances and Islamic financing assets	6.24%	1,428,101	1,143,777	734,736	619,533	-	3,926,147
Investment securities	5.42%	117,552	26,007	277,473	43,659	8,702	473,393
Other assets	N/A	79,972	-	-	-	28,690	108,662
Property and equipment	N/A	-	-	-	-	59,467	59,467
Total assets		1,910,650	1,222,529	1,025,684	663,192	420,490	5,242,545
Due to Banks and other money market deposits	5.55%	58,054	30,800	89,686	-	14,398	192,938
Customers' deposits	3.72%	302,227	2,221,042	955,654	86	649,514	4,128,523
Other liabilities	N/A	79,972	-	-	-	53,828	133,800
Taxation	N/A	-	-	-	-	19,123	19,123
Tier 1 Perpetual Bond	7.39%	-	-	225,037	-	-	225,037
Shareholders' equity	N/A	-	-	-	-	543,124	543,124
Total liabilities and shareholders' equity		440,253	2,251,842	1,270,377	86	1,279,987	5,242,545
Total interest rate sensitivity gap		1,470,397	(1,029,313)	(244,693)	663,106	(859,497)	-
Cumulative interest rate sensitivity gap		1,470,397	441,084	196,391	859,497	-	

31. RISK MANAGEMENT (continued)

31.3 Market 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 demand and 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	-	-	-	-	404,477	404,477
Due from Banks and other money market placements	5.80%	180,150	19,250	6,853	-	118,667	324,920
Loans, advances and Islamic financing assets	5.96%	1,261,218	924,258	676,486	637,142	7,656	3,506,760
Investment securities	5.66%	148,814	7,885	230,769	68,748	5,440	461,656
Other assets	N/A	-	-	-	-	68,300	68,300
Property and equipment	N/A	-	-	-	-	55,893	55,893
Total assets		1,590,182	951,393	914,108	705,890	660,433	4,822,006
Due to Banks and other money market deposits	6.40%	383,788	7,700	-	-	22,721	414,209
Customers' deposits	2.95%	390,969	1,725,907	920,007	129	572,931	3,609,943
Other liabilities	N/A	21,849	-	-	-	82,486	104,335
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		796,606	1,733,607	1,087,140	129	1,204,524	4,822,006
Total interest rate sensitivity gap		793,576	(782,214)	(173,032)	705,761	(544,091)	-
Cumulative interest rate sensitivity gap		793,576	11,362	(161,670)	544,091	-	

- **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.

The Bank had the following significant net exposures denominated in foreign currencies:

	2024	2023
	RO'000	RO'000
US Dollar	121,327	38,627
UAE Dirham	39,048	42,520
Others	1,154	1,628

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31.4 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.

31.4.1 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.

31.5 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.

31.6 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. This needs to be enhanced especially considering CBO's and FSA's guidelines.

32. 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.

The distribution of assets, liabilities and contingent items by geographical regions as of 31 December 2024 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	221,877	80,154	481	-	302,512
Due from Banks and other money market placements	102,140	5,565	476	264,183	372,364
Loans, advances and Islamic financing assets	3,791,899	111,123	-	23,125	3,926,147
Investment securities	412,670	20,996	-	39,727	473,393
Other assets	69,995	38,516	151	-	108,662
Property and equipment	58,413	1,054	-	-	59,467
Total assets	4,656,994	257,408	1,108	327,035	5,242,545
Due to Banks and other money market deposits	15,000	64,186	-	113,752	192,938
Customers' deposits	3,959,181	168,981	361	-	4,128,523
Other liabilities	94,864	38,844	92	-	133,800
Taxation	18,265	814	44	-	19,123
Shareholders' equity	552,068	(10,599)	1,655	-	543,124
Tier 1 perpetual bond	225,037	-	-	-	225,037
Liabilities and shareholders' equity	4,864,415	262,226	2,152	113,752	5,242,545
Contingent liabilities	260,201	24,555	-	27,901	312,657

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The distribution of assets, liabilities and contingent items by geographical regions as of 31 December 2023 is as follows:

	Sultanate of Oman	UAE	Egypt	thers	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	344,343	59,358	776	-	404,477
Due from Banks and other money market placements	51,496	41,135	537	231,752	324,920
Loans, advances and Islamic financing assets	3,432,614	74,146	-	-	3,506,760
Investment securities	417,177	13,535	-	30,944	461,656
Other assets	64,904	3,147	249	-	68,300
Property and equipment	55,052	841	-	-	55,893
Total assets	4,365,586	192,162	1,562	262,696	4,822,006
Due to Banks and other money market deposits	4,178	164,390	-	245,641	414,209
Customers' deposits	3,500,820	108,680	443	-	3,609,943
Other liabilities	102,816	1,281	238	-	104,335
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

33. SEGMENTAL INFORMATION

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the management. The Bank is organised into five 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 Centre – The Funding centre 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.

33. SEGMENTAL INFORMATION (continued)

Segment information by business line is as follows:

Year ended 31 December 2024	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	41,044	49,275	4,961	6,350	7,153	108,783
Fees, Commission and other operating income	15,451	23,559	1,155	2,023	355	42,543
Operating income	56,495	72,834	6,116	8,373	7,508	151,326
Operating expenditure	(36,625)	(16,555)	(4,822)	(5,543)	562	(62,983)
Operating profit	19,870	56,279	1,294	2,830	8,070	88,343
Loan impairment losses	(1,287)	(13,419)	(54)	624	-	(14,136)
Net profit before tax	18,583	42,860	1,240	3,454	8,070	74,207
Taxation	(2,419)	(5,579)	(2,095)	-	(1,051)	(11,144)
Net profit after tax	16,164	37,281	(855)	3,454	7,019	63,063
Total assets	1,477,795	2,661,583	244,340	532,111	326,716	5,242,545
Total liabilities and equity	1,276,463	2,355,077	244,340	532,111	834,554	5,242,545

Disaggregated revenues 2024

IFRS 15 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:

2024	Retail	Wholesale	International	Islamic	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Transactional	9,908	-	4	31	9,943
Trade Income	65	2,712	213	45	3,035
Account Services	120	1,283	(20)	42	1,425
Underwriting & Syndication	668	6,987	236	967	8,858
Investment banking	-	1,779	-	-	1,779
Total	10,761	12,761	433	1,085	25,040

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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 2024	Oman	UAE	Egypt	Total
	RO'000	RO'000	RO'000	RO'000
Net Interest income and Income from Islamic financing and Investment activities	103,822	4,958	3	108,783
Fees, Commission and other operating income	41,388	1,421	(266)	42,543
Operating income	145,210	6,379	(263)	151,326
Operating expenses	(60,348)	(2,520)	(115)	(62,983)
Operating profit	84,862	3,859	(378)	88,343
Total impairment losses (net) and taxation	(23,132)	(2,272)	124	(25,280)
Segment profit for the year	61,730	1,587	(254)	63,063
Other information				
Segment assets	4,998,205	243,707	633	5,242,545
Segment capital expenses	8,131	343	-	8,474

Note: Operating expenses does not include cost allocation.

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	(1,012)	(14,841)	1,844	(1,689)	-	(15,698)
Net profit before tax	16,772	43,010	3,770	1,231	3,477	68,260
Taxation	(2,115)	(5,423)	(2,255)	-	(438)	(10,231)
Net profit after tax	14,657	37,587	1,515	1,231	3,039	58,029
Total assets	1,439,899	2,137,901	150,729	381,823	711,654	4,822,006
Total liabilities and equity	919,698	2,295,453	150,729	381,823	1,074,303	4,822,006

33. SEGMENTAL INFORMATION (continued)

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 (net) 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

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

Note: Operating expenses does not include cost allocation.

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34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2024 and 2023 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. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices. Industry standard valuation models are used to calculate the expected future value of payments by product, which is discounted back to a present value. The model's interest rate inputs are benchmark and active quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced from brokers and consensus data providers. If consensus prices are not available, these are classified as Level 3 instruments.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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 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:

	Level 1	Level 2	Total
31 December 2024	RO'000	RO'000	RO'000
Investment measured at FVTPL			
Quoted equities	2,218	-	2,218
Unquoted equities	-	2,648	2,648
Total	2,218	2,648	4,866
Investment measured at FVOCI			
Quoted equities	96,604	-	96,604
Total	96,604	-	96,604
Total financial assets	98,822	2,648	101,470

	Level1	Level2	Total
31 December 2023	RO'000	RO'000	RO'000
Investment measured at FVTPL			
Quoted equities	1,852	-	1,852
Unquoted equities	-	2,585	2,585
Total	1,852	2,585	4,437
Investment measured at FVOCI			
Quoted equities	61,916	-	61,916
Total	61,916	-	61,916
Total financial assets	63,768	2,585	66,353

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 35). There are no transfers between levels of fair value measurement hierarchy during the years ended 31 December 2024 and 2023.

35. DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments may dependent on movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value.

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

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.

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.

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 2024				Notional amounts by term to maturity		
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 - 12 months	More than 1 year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	(note 8)	(note 12)				
Interest rate swaps	11,840	(11,840)	375,400	9,684	29,683	336,033
Forward foreign exchange purchase contracts	4	(6)	245,196	153,955	63,116	28,125
Forward foreign exchange sales contracts	893	(40)	245,196	154,053	63,041	28,102
Total	12,737	(11,886)	865,792	317,692	155,840	392,260

31 December 2023				Notional amounts by term to maturity		
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 - 12 months	More than 1 year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	(note8)	(note12)				
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

36. CHANGES TO CORRESPONDING AMOUNTS

The Bank has re-evaluated the presentation of certain transactions and balances in the consolidated statements of financial position, profit or loss and cash flows to determine if those transactions and balances have been presented appropriately in line with the requirements of IFRS Accounting Standards. Where necessary, changes in presentation were made in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors".

Changes in comparatives in the consolidated statement of cash flows and statement of financial position

A. Payment of lease liabilities

In prior year, the Bank presented cash payments for the principal portion of the lease liabilities within operating activities in the consolidated statement of cash flows. IFRS 16 – "Leases" requires the principal portion of the lease liabilities to be presented within "financing activities" in the consolidated statement of cash flows.

As a result, Management restated prior year consolidated statement of cash flows by presenting the "payment of principal amount of lease liabilities" within "financing activities".

B. Repayment of euro medium term notes

In prior year, the Bank presented cash payments for the repayment of euro medium term notes within operating activities in the consolidated statement of cash flows.

IAS 7- Statement of cash flows requires the cash payments of amounts borrowed to be presented within "financing activities" in the consolidated statement of cash flows.

As a result, Management restated prior year consolidated statement of cash flows by presenting the "repayment of euro medium term notes" within "financing activities".

C. Interest receivable and interest payable

Interest receivable and interest payable were previously presented within "Other assets" and "Other liabilities" respectively on the consolidated statement of financial position. Under the amortized cost method, accrued interest is part of the underlying financial asset/financial liability and should generally be presented as part of these consolidated financial statements line items. As a result, interest receivable and interest payable are now reclassified to their respective financial asset and liability category.

	31 December 2023 – As previously reported	Adjustment (C)	31 December 2023 – revised
	RO'000		RO'000
Cash and balances with Central Banks	404,469	8	404,477
Due from banks and other money market placements	324,213	707	324,920
Loans, advances and Islamic financing assets	3,495,926	10,834	3,506,760
Investment securities	457,615	4,041	461,656
Other assets	83,890	(15,590)	68,300
Total assets	4,822,006	-	4,822,006

Changes in comparatives in the consolidated statement of cash flows and statement of financial position (continued)

	31 December 2023 – As previously reported	Adjustment (C)	31 December 2023 – revised
	RO'000		RO'000
Due to banks and other money market deposits	413,031	1,178	414,209
Customers' deposits	3,573,033	36,910	3,609,943
Other liabilities	142,423	(38,088)	104,335
Total liabilities	4,147,463	-	4,147,463

	1 January 2023 – As previously reported	Adjustment (C)	1 January 2023 – revised
	RO'000		RO'000
Cash and balances with Central Banks	261,589	8	261,597
Due from banks and other money market placements	119,260	242	119,502
Loans, advances and Islamic financing assets	3,353,699	11,925	3,365,624
Investment securities	404,387	4,585	408,972
Other assets	98,055	(16,760)	81,295
Total assets	4,294,080	-	4,294,080
Due to banks and other money market deposits	261,743	539	262,282
Customers' deposits	3,047,422	19,638	3,067,060
Euro medium term notes	188,865	2,948	191,813
Other liabilities	139,235	(23,125)	116,110
Total liabilities	3,653,246	-	3,653,246

36 CHANGES TO CORRESPONDING AMOUNTS (continued)

The above reclassifications also resulted into certain changes to the consolidated statement of cash flow presentation as disclosed below:

Statement of cash flows (Extracts)

	Year ended 31 December 2023 – as previously reported	Adjustment A	Adjustment B	Adjustment C	Year ended 31 December 2023 – revised
	RO'000	RO'000	RO'000	RO'000	RO'000
Operating activities					
Payment of lease liabilities	(2,260)	2,260	-	-	-
Operating cash flows before changes in operating assets and liabilities	59,376	2,260	-	-	61,636
Euro medium term notes	(188,865)	-	191,813	(2,948)	-
Due from banks and other money market placements	(71,759)	-	-	(465)	(72,224)
Due to banks and other money market deposits	151,288	-	-	639	151,927
Loans, advances and Islamic financing assets	(135,987)	-	-	1,089	(134,898)
Other assets	14,165	-	-	(1,168)	12,997
Customers' deposits	525,611	-	-	17,271	542,882
Other liabilities	(18,074)	-	-	(14,962)	(33,036)
Cash generated from operations activities	335,755	-	-	-	529,284
Net cash generated from operating activities	**328,677**	**-**	**-**	**-**	**522,206**
Investment activities					
Income from investment securities (interest)	26,358	-	-	544	26,902
Net cash used in investing activities	**(27,816)**	**-**	**-**	**544**	**(27,272)**
Financing activities					
Payment of lease liabilities	-	(2,260)		-	(2,260)
Repayment of euro medium term notes	-	-	(191,813)	-	(191,813)
Net cash used in financing activities	**(24,757)**	**(2,260)**	**(191,813)**	**-**	**(218,830)**

D. Order of liquidity

As at 31 December 2023, the order of liquidity of the consolidated statement of financial position was changed to reflect other assets above property and equipment.

E. Fee and commission income presentation in consolidated statement of profit or loss and other comprehensive income

Fee and commission income were previously presented on net basis on the consolidated statement of profit or loss and other comprehensive income.

IAS 1- Presentation of consolidated Financial Statements ("IAS 1") requires the profit or loss section or the statement of profit or loss to present revenue, presenting separately interest revenue calculated using the effective interest method. Futhermore, when items of income or expense are material, an entity shall disclose their nature and amount separately

As a result, fee and commission income is presented on gross basis.

	31 December 2023 – As previously reported	Adjustment (E)	31 December 2023 – revised
	RO'000		RO'000
Fee and commission income	21,249	11,708	32,957
Fee and commission expenses	-	(11,708)	(11,708)
Net fee and commission income	21,249	-	21,249

F. Presentation of net change in fair value of equity investments at FVOCI

In the prior year, the net changes in the fair value of equity instruments at FVOCI were erroneously reported on the consolidated statement of profit or loss and other comprehensive income. This error has now been corrected in the consolidated statement of profit or loss and other comprehensive income. The amount reported in the consolidated statement of changes in equity was correctly reflected and did not require adjustment. As a result, there have been adjustments to the other comprehensive income for the year and the total comprehensive income of the Bank. However, there is no impact on the total equity since the correct amount was correctly reflected in the consolidated statement of changes in equity.

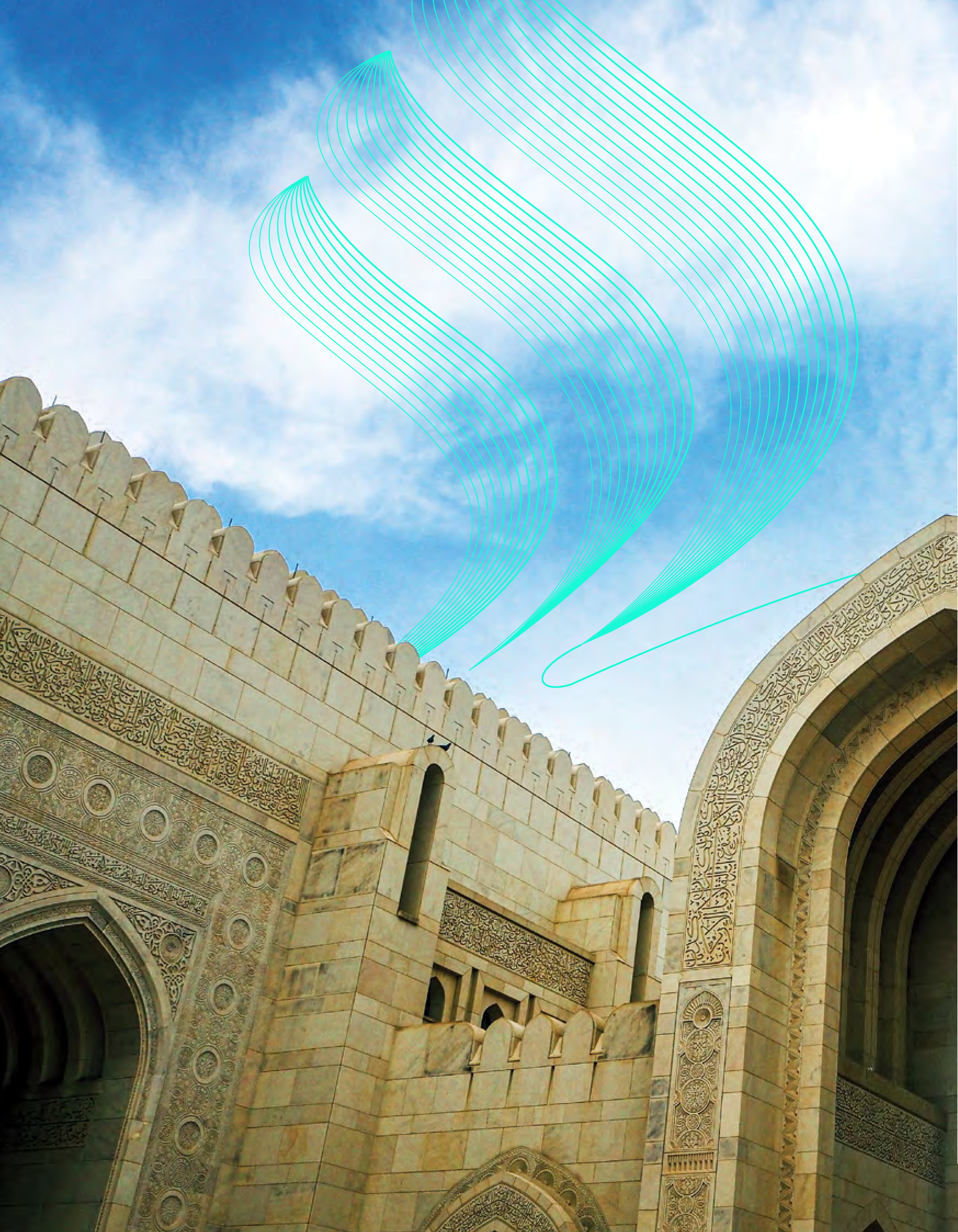
	31 December 2023 – As previously reported	Adjustment (F)	31 December 2023 – revised
	RO'000		RO'000
Equity investments at FVOCI – net change in fair value	1,656	(1,055)	601
Other comprehensive income for the year	1,492	(1,055)	437
Total comprehensive income for the year	59,521	(1,055)	58,466

Others

Certain disclosures in the corresponding notes have been enhanced in order to conform with the disclosures for the current year. The enhancements were made to improve the quality of disclosure and do not affect the previously reported profit or equity.

6

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 2024 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 2024 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) Earnings that have been realized from sources or by means prohibited by Shari'a principle have been identified and segregated 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

Mufti Dr. Muhammad Zubair Usmani

Chairman Shari'a Supervisory Board

The Board of Directors
National Bank of Oman SAOG
PO Box 751
PC 112
Ruwi, Sultanate of Oman.

Dear Sirs

Agreed-upon procedures report of factual findings to the Board of Directors of National Bank of Oman SAOG (the "Bank") in respect of Basel-II Pillar III and Basel-III Disclosures (the "Disclosures") of Muzn Islamic Banking - Window of National Bank of Oman SAOG (the "Window") for the year ended 31 December 2024

Purpose of this Agreed-upon procedures report

This report is produced in accordance with the terms of our agreement dated 18 November 2024. The procedures, as set out in Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III were performed solely to assist the directors of the Bank in evaluating the Bank's compliance with the disclosure related requirements of the IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013, letter BSD/CB/2020/005 dated 3 June 2020 and letter SDD/CBS/CB/2024/108 dated 26 June 2024 and may not be suitable for another purpose.

Your responsibilities

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

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

Our responsibilities

We have performed the procedures agreed with you as set out as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures of Muzn Islamic Banking - Window (the Islamic window). The procedures, as set out in Article 10.1 .2 of title 5 'Capital Adequacy' of the IBRF, were performed solely to assist you in evaluating the Islamic window of the Bank's compliance with the disclosure requirements set out in the IBRF issued by the CBO and Circular No. BM 1114 dated 17 November 2013, letter BSD/CB/2020/005 dated 3 June 2020 and letter SDD/CBS/CB/2024/108 dated 26 June 2024. Our work was performed in accordance with the International Standard on Related Services (ISRS) 4400 (Revised) 'Agreed-Upon procedures Engagements.'

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

Agreed-upon procedures report of factual findings to the Board of Directors of National Bank of Oman SAOG (the "Bank") in respect of Basel-II Pillar III and Basel-III Disclosures (the "Disclosures") of Muzn Islamic Banking - Window of National Bank of Oman SAOG for the year ended 31 December 2024 (continued)

Professional Ethics and Quality Management

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

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

Procedures and findings

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures (the disclosures) of Muzn Islamic Banking - Window (the Window) of the Bank, set out on pages 1 to 29 as at and for the year ended 31 December 2024.

Based on the above procedures performed no exceptions were noted.

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

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

Restriction on distribution and use

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

Yours faithfully,

PricewaterhouseCoopers

C.R. No 1230865 PricewaterhouseCoopers LLC

Muscat, Sultanate of Oman
4 March 2025

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 2024 is RO 40,000,000 (2023: RO 35,000,000). Muzn' s capital structure as at close of 31 December 2024, 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	40,000
Share premium	-
Legal reserve	-
General reserve	-
Other reserve	(616)
Subordinated debt reserve	-
Stock dividend (Proposed)	-
Retained earnings	13,595
Common equity Tier 1 before regulatory adjustments	**52,979**
Deduction	
Deferred tax asset	-
Common equity Tier 1	52,979
Tier I capital after all deductions	**52,979**
Tier II Capital	
Revaluation reserves / Cumulative fair value gains or losses on available for sale Instruments	-
Permissible ECL Allowance	940
Subordinated debt (After amortization)	-
Total Tier II Capital	**940**
Total Regulatory Capital	**53,919**
Amount of Quasi equity account holders' funds	450,418
Profit equalization reserve	1,026
Investment risk reserve	440
Total Quasi Equity account holders	**451,884**

CAPITAL ADEQUACY

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); and
- 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 Quasi equity 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 2024	(RO'000)
Details	**Amount**
Tier I capital (after supervisory deductions)	**52,979**
Tier II capital (after supervisory deductions & up to eligible limits)	**940**
Risk Weighted Assets (RWAs) – Banking Book	**352,812**
Risk Weighted Assets (RWAs) – Operational Risk	**12,721**
Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk	**365,533**
Minimum required capital to support RWAs of banking book and operational risk	49,347
Minimum required capital comprises of;	
i) Tier I capital	48,407
ii) Tier II capital	940
Balance Tier I capital available for supporting Trading Book	4,572
Risk Weighted Assets (RWAs) – Trading Book	**9,106**
Total capital required to support Trading Book	1,229
Minimum Tier I capital required for supporting Trading Book	350
Total Regulatory Capital	**53,919**
Total Risk Weighted Assets – Islamic Window	**374,639**
BIS Capital Adequacy Ratio	**14.39**

CAPITAL ADEQUACY (continued)

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 2024			(RO'000)
Details	**Gross balance (Book value)**	**Net balance (Book value)**	**Risk Weighted Assets**
On balance sheet items	531,358	525,149	351,703
Off balance sheet items	9,749	9,749	1,109
Derivatives	-	-	-
Operational Risk	-	-	12,721
Market Risk	-	-	9,106
Total	**541,107**	**534,898**	**374,639**
Common equity Tier I Capital	-	-	52,979
Tier 2 Capital	-	-	940
Tier 3 Capital	-	-	-
Total Regulatory Capital	**-**	**-**	**53,919**
Total required Capital	-	-	50,576
Capital requirement for credit risk	-	-	47,630
Capital requirement for market risk	-	-	1,229
Capital requirement for operational risk	-	-	1,717
Common equity Tier 1 Ratio			
Tier I Ratio	**-**	**-**	**14.14**
Total Capital ratio	**-**	**-**	**14.39**

Disclosures for Quasi Equity Account Holders (QE)

Muzn accepts funds from Quasi Equity holders 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 Quasi Equity 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 Quasi account holders 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 Quasi equity.

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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.

Ratios and returns

Profit Equalization Reserve (PER) to Profit Sharing Investment Account (PSIA)

Particulars (RO'000)	2024	2023
Amount of Total PER	**1,026**	799
Amount of PSIA by Quasi equity holders	**451,884**	301,245
PER to PSIA Ratio	**0.23%**	0.27%

Investment Risk Reserves (IRR) to Profit Sharing Investment Account (PSIA)

Particulars (RO'000)	2024	2023
Amount of Total IRR	**440**	332
Amount of PSIA by Quasi equity holders	**451,884**	301,245
IRR to PSIA Ratio	**0.10%**	0.11%

Return on Assets (ROA)

Particulars (RO'000)	2024	2023
Amount of total net income (Before distribution of profit to Quasi equity holders)	**22,998**	12,761
Amount of assets	**525,149**	375,799
Return on assets (ROA)	**4.38%**	3.40%

Return on Equity (ROE)

Particulars (RO'000)	2024	2023
Amount of total net income (after distribution of profit to Quasi equity holders)	**5,709**	2,664
Amount of equity	**54,346**	44,269
Return on equity (ROE)	**10.50%**	6.02%

CAPITAL ADEQUACY (continued)

Rate of profit distributed to PSIA by type of Quasi equity

As at reporting date, Muzn has Quasi equity and has allocated attributable profit amounting RO 17,289 (000s) during the year.

Latest Profit rates paid to investment account holders for year ended 31 December 2024

	Weightages	Declared Profit Rate
Savings Account (Mudarabah)	15	0.64%
Flexi Wakala	45	0.10%
Flexi Wakala – Elite	55	2.25%
Flexi Wakala – Premium	50	1.75%
Wakala- Upto 6 months	55	1.25% - 3.00%
Wakala - > 6months to 1 Year	55	3.00% - 4.00%
Wakala - > 1 Year to 3 Years	57	4.15% - 4.25%
Wakala - > 3 Years	55	3.50% - 4.15%
Government Flexi Wakala	60	0.75%

Jointly Funded Assets and Return to Quasi equity

		RO'000
	31 December 2024	31 December 2023
Assets		
Murabaha receivables	**23,608**	10,661
Ijarah Muntahia Bittamleek	**48,721**	48,883
Diminishing Musharaka	**176,400**	135,685
Forward Ijara	**283**	345
Service Ijarah	**17**	18
Wakala Bil Istithmar	**93,525**	71,159
Credit Card	**31**	0
Total amount invested	**342,585**	266,751
Share of profit of Quasi equity before PER and IRR for the year	**17,624**	10,321
Transfers to:		
- PER	**(228)**	(154)
- IRR	**(107)**	(70)
Share of profit of Quasi equity after PER and IRR for the year	**17,289**	10,097

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 Organization 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 action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

RISK EXPOSURE AND ASSESSMENT: (continued)

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).
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.

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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.

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.

RISK EXPOSURE AND ASSESSMENT: (continued)

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.

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 2024 increased the loss allowance by 0.29% compared to ECL allowance derived through the ECL models.

H) Model risk management:

The Window has utilized 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.

RISK EXPOSURE AND ASSESSMENT: (continued)

(i) Total gross credit exposures over the period broken down by major types of credit exposure:

(RO'000)

Sl No	Type of Credit Exposure	Total Gross Exposure as at 31-December-24	Total Gross Exposure as at 31-December-23
1	Murabaha receivables	**23,833**	10,722
2	Ijarah Muntahia Bittamleek	**50,942**	49,918
3	Diminishing Musharaka	**179,891**	140,973
4	Forward Ijara	**290**	352
5	Service Ijarah	**17**	18
6	Wakala Bil Istithmar	**93,756**	71,342
7	Credit Card	**31**	-
	Total	**348,760**	273,325

(ii) Geographic distribution of exposures by major types of credit exposure as at 31 December 2024:

As at 31 December 2024, all the credit exposures are within Oman (2023: 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 2024:

(RO'000)

Sl No	Economic Sector	Deferred sales under Murabaha	Ijarah	Diminishing Musharaka	Forward Ijara	Service Ijara	Wakala Bil Istithmar	Credit Card	Total	Percentage composition	Off Balance sheet exposure*
1	Personal	6,555	6,183	21,151	274	17	-	31	34,211	10%	693
2	Construction	-	38,175	107,644	16	-	-	-	145,835	42%	5,452
3	Manufacturing	2,501	5,845	13,988	-	-	-	-	22,334	6%	-
4	Trade	14,239	-	-	-	-	-	-	14,239	4%	-
5	Services	538	739	37,108	-	-	93,756	-	132,141	38%	-
6	Others	-	-	-	-	-	-	-	-	0%	8,640
	Total	**23,833**	**50,942**	**179,891**	**290**	**17**	**93,756**	**31**	**348,760**	**100%**	**14,785**

*Off balance sheet exposure relates to commitments under standard business norms, letter of credits, guarantees.

As at 31 December 2024, the assets were funded by Quasi equity & Wakala Account and shareholders in the following ratio:

Quasi equity	**86%**
Shareholders	**14%**

(iv) Residual maturity as at 31 December 2024 of the whole financing portfolio, broken down by major types of credit exposure:

(RO'000)

Sl No	Time Band	Deferred sales under Murabaha	Ijara	Diminishing Musharaka	Forward Ijara	Service Ijara	Wakala Bil Istithmar	Credit Cards	Total
1	Up to 1 month	2,216	260	391	-	-	300	-	3,167
2	1-6 months	14,165	1,042	2,157	-	2	5,387	31	22,784
3	6-12 months	778	1,561	2,959	-	2	7,311	-	12,611
4	1-5 years	2,795	7,718	23,548	-	6	32,538	-	66,605
5	Over 5 years	3,654	38,140	147,345	283	7	47,989	-	237,418
	Total	**23,608**	**48,721**	**176,400**	**283**	**17**	**93,525**	**31**	**342,585**

(v) Movement of Gross Finance

Movement of Gross Finances during the year ended 31 December 2024 (RO'000)

S. No	Details	Stage 1	Stage 2	Stage 3	Total
1	Opening balance	195,276	73,585	4,464	273,325
2	Migration / changes (+ / -)	634	(4,346)	3,712	-
3	New Finances (+)	85,164	12,085	-	97,249
4	Recovery of Financing (-)	4,197	17,133	484	21,814
5	**Closing balance**	**276,877**	**64,191**	**7,692**	**348,760**
6	Total ECL	615	2,010	3,549	6,174

(vi) Movement of Provisions and Reserve Profit

(RO'000)

Particulars	2024	2023
Provision at beginning of the period	**6,606**	4,818
(Release)/Provided during the year	**(749)**	1,596
Recovered during the year	**125**	94
Reserve Profit for the period	**227**	98
Provision at end of the period	**6,209**	6,606

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.

RISK EXPOSURE AND ASSESSMENT: (continued)

Quantitative Disclosures:

Gross exposure amount as at 31 December 2024, subject to the standardized approach is as below:

(RO'000)

Sr No	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
	Rated							
1	Sovereign	65,599	-	-	-	-	-	65,599
2	Banks	-	16,533	-	82,755	3,850	-	103,138
	Unrated							
1	Corporate	20,000	-	-	-	73,756	-	93,756
2	Retail	-	-	-	-	6,518	-	6,518
3	Claims secured by residential property	-	-	54,230	-	4,662	-	58,892
4	Claims secured by commercial property	-	-	-	-	180,942	-	180,942
5	Past due Financing	-	-	-	-	8,650	-	8,650
6	Other assets	1,156	-	-	-	12,705	-	13,861
7	Venture Capital & Private Equity Investments	-	-	-	-	-	-	-
8	Off-balance Sheet Items	-	337	-	8,303	1,591	-	10,231
	Total Banking Book	**86,755**	**16,870**	**54,230**	**91,058**	**292,674**	**-**	**541,587**

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 27.30% (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	**185,895**
Short-term Liabilities	**348,526**
Short-term Assets to Liabilities	**53.34%**

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RISK EXPOSURE AND ASSESSMENT: (continued)

Indicators of exposure to liquidity risk - liquid assets ratio

Particulars	(RO'000)
Liquid Assets	143,340
Total Assets	525,149
Short-term Liabilities	348,526
Total Liabilities	470,803
Liquid Assets to Total Assets	**27.30%**
Liquid Assets to Short-term Liabilities	**41.13%**
Liquid Assets to Total Liabilities	**30.45%**

Quantitative Disclosures:

The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at 31 December 2024 was as follows:

(RO'000)

31 December 2024	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
Cash and balances with Central Bank of Oman	26,015	2,202	2,426	2,582	1,826	35,051
Due from banks and financial institutions	37,688	61,600	3,850	-	-	103,138
Investments in Sukuk, shares and other securities	6,251	1,043	3,000	10,952	18,956	40,202
Deferred sales under Murabaha	2,216	14,165	778	2,795	3,654	23,608
Ijara	260	1,042	1,561	7,718	38,140	48,721
Diminishing Musharaka	391	2,157	2,959	23,548	147,345	176,400
Forward Ijarah	-	-	-	-	283	283
Service Ijarah	-	2	2	6	7	17
Wakala Bil Istithmar	300	5,387	7,311	32,538	47,989	93,525
Credit Card		31				31
Property and equipment	-	-	-	-	915	915
Other assets	3,258	-	-	-	-	3,258
Total assets	**76,379**	**87,629**	**21,887**	**80,139**	**259,115**	**525,149**
Current accounts	2,068	3,619	2,068	-	2,587	10,342
Due to banks and financial institutions	389	-	-	-	-	389
Other liabilities	8,188	-	-	-	-	8,188
Quasi Equity Account holders	79,129	165,406	87,659	61,031	58,659	451,884
Mudaraba savings account (including reserves)	799	1,594	1,594	2,391	3,059	9,437
Due to banks and financial institutions under Wakala	45,777	86,628	-	-	-	132,405
Customer Wakala accounts	32,553	77,184	86,065	58,640	55,600	310,042
Owner's equity	-	-	-	-	54,346	54,346
Total liabilities and Quasi equity accountholders and owners' equity	89,774	169,025	89,727	61,031	115,592	525,149
Total liquidity gap	(13,395)	(81,396)	(67,840)	19,108	143,523	-
Cumulative liquidity gap	(13,395)	(94,791)	(162,631)	(143,523)	-	-

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 2024, 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 analayze 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 940 (000s).

The Risk weighted assets for operational risk as per Basel II is RO 9,106 (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 Quasi equity 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.

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 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analyzed 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.

RISK EXPOSURE AND ASSESSMENT: (continued)

Quantitative Disclosures:

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

As at December 2024	200 bps increase	200 bps decrease
Earnings impact - RO'000s	383	(383)

Muzn's profit sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2024 was as follows:

							(RO'000)
31 December 2024	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
Cash and balances with Central Bank of Oman ("CBO")	N/A	-	-	-	-	35,051	35,051
Due from banks and financial Institutions	0.0%	101,986	-	-	-	1,152	103,138
Investments in Sukuk, shares and other securities	5.6%	7,295	3,000	15,608	14,299	-	40,202
Deferred sales under Murabaha	5.8%	16,381	778	2,795	3,654	-	23,608
Ijara	4.3%	1,302	1,561	7,718	38,140	-	48,721
Diminishing Musharaka	6.2%	2,548	2,959	23,548	147,345	-	176,400
Forward Ijarah	5.5%	-	-	-	-	283	283
Service Ijarah	4.9%	2	2	6	7	-	17
Wakala Bil Istithmar	0.6%	5,687	7,311	32,538	47,989	-	93,525
Credit card	0.0%	-	-	-	-	31	31
Property and equipment – net	N/A	-	-	-	-	915	915
Other assets	N/A	-	-	-	-	3,258	3,258
Total assets		**135,201**	**15,611**	**82,213**	**251,434**	**40,690**	**525,149**
Current accounts	N/A	-	-	-	-	10,342	10,342
Due to banks and financial institutions	0.0%	389	-	-	-	-	389
Other liabilities	N/A	-	-	-	-	8,188	8,188
Quasi Equity Account holders	N/A	157,907	174,287	61,031	58,659	-	451,884
Mudaraba savings account (including reserves)	0.6%	2,393	1,594	2,391	3,059	-	9,437
Due to banks and financial institutions under Wakala	5.7%	45,777	86,628	-	-	-	132,405
Customer Wakala accounts	5.6%	109,737	86,065	58,640	55,600	-	310,042
Owners' equity	N/A	-	-	-	-	54,346	54,346
Total liabilities and owners' equity		158,296	174,287	61,031	58,659	72,876	525,149
On-balance sheet gap		**(23,095)**	**(158,676)**	**21,182**	**192,775**	**(32,186)**	**-**
Cumulative profit sensitivity gap		**(23,095)**	**(181,771)**	**(160,589)**	**32,186**	**-**	**-**

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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 Quasi equity Account Holders 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 Quasi equity returns. Further, Muzn also adjusts its Mudarib share in order to smoothen returns of Quasi equity.

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 Quasi equity 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 Quasi equity 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 Quasi equity 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 Quasi equity by Muzn is as follows:

	(RO'000)
Particulars	Amount
Total profits available for distribution	20,903
- Muzn 's share as fund provider	2,611
- Share of Quasi equity	17,624
Profits for Quasi equity before smoothening	17,624
Smoothening:	
- PER	(228)
- IRR	(107)
Profits paid out to Quasi equity after smoothening	17,289

- During the year the Bank utilized OMR Nil (2023: Nil) from PER for the purpose of enhancing the returns to depositors.
- The Bank is taking all the Risk Weighted Assets funded by Quasi equity for the purpose of arriving at Total Risk Weighted Assets and capital requirement is calculated accordingly.

Quantitative Disclosures

Historical Rate of Return of Quasi equity:

					(RO'000)
Historical Rate of Return of unrestricted Investment Accountholder:	2024	2023	2022	2021	2020
Profits available for distribution	20,903	14,845	10,934	9,469	8,920
Profit Distributed	17,289	10,097	5,334	5,174	4,925
Funds Invested	342,585	266,751	179,971	157,445	148,918
Rate as % age of fund invested	5.05%	3.79%	2.96%	3.29%	3.27%

RISK EXPOSURE AND ASSESSMENT: (continued)

Five years comparison of historical profit rates for unrestricted Quasi equity.

	2024	2023	2022	2021	2020
Savings Account (Mudarabah)	**0.64%**	0.54%	0.66%	0.53%	0.52%
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	**1.25% - 3.00%**	0.25% - 1.75%	0.25% - 1.75%	0.10% - 0.25%	0.10% - 0.25%
Wakala - > 6months to 1 Year	**3.00% - 4.00%**	1.75% - 3.25%	1.75% - 3.25%	0.40% - 0.75%	0.40% - 0.75%
Wakala - > 1 Year to 3 Years	**4.15% - 4.25%**	3.25% - 3.75%	2.75% - 3.75%	1.75% - 2.50%	1.75% - 2.50%
Wakala - > 3 Years	**3.50% - 4.15%**	3.75% - 4.25%	3.35% - 4.25%	3.00% - 3.50%	3.00% - 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:

	Amount '000
Financing Contracts	**Risk Weighted Assets**
Murabaha receivables	23,830
Ijarah Muntahia Bittamleek	31,252
Diminishing Musharaka	162,068
Forward Ijara	137
Service Ijara	17
Wakala Bil Istithmar	73,756
Credit Card	31
Letter of Guarantee	-
Letter of Credit	-
Total RWA of Financing Contracts	**291,091**
Total RWA from Non-Financing Contracts	**61,817**
Total RWA – Banking Book	**352,908**

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.

The following disclosure summarizes the disclosures of related party:

		(RO'000)
Deposits and other accounts	**2024**	**2023**
Directors, Sharia Supervisors and shareholders	**3,119**	149
Financings		
Directors, Sharia Supervisors and shareholders	**43,306**	34,111

The statement of income includes the following amounts in relation to transactions with related parties:

		(RO'000)
Income from Islamic financing	**2024**	**2023**
Income from Islamic financing	**1,424**	1,007

		(RO'000)
Remuneration paid to Directors & Sharia Supervisors	**2024**	**2023**
Chairman		
– remuneration proposed	**8**	8
– sitting fees paid	**2**	2
– other expenses paid	**1**	1
Other Directors		
– remuneration proposed	**14**	15
– sitting fees paid	**1**	11
– other expenses paid	**1**	1
Management fee payable to conventional banking	**256**	162

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.

RISK EXPOSURE AND ASSESSMENT: (continued)

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.

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There was a total of four SSB meetings held in 2024. Date of the meetings and attendance of each SSB Member is follows:

Name of the SSB Member	Date of Meeting and attendance			
	30/04/2024	12/08/2024	29/10/2024	31/12/2024
Sheikh Dr. Muhammad Zubair Usmani	√	√	√	√
Sheikh Dr. Abdulrahman Al Saadi	√	√	√	√
Shaikh Saleh Nasser Al Kharusi	√	√	√	√
H.H Sayyid Dr. Adham Turki Al Said	√	√	√	-

Remuneration for Sharia Supervisory Board Members in 2024:

Total Remuneration paid to the Four Scholars for the year 2024 was OMR 29,453. The breakup is as follows:

Name of the SSB 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 Turki Al Said	4,428

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 Fatwa 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 2024.

Basel III common disclosure template to be used during the transition of regulatory	(RO'000)
	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	40,000
Retained earnings	13,595
Accumulated other comprehensive income (and other reserves)	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory adjustments	**53,595**
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)	53,595
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)	**53,595**
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	940
Cumulative fair value (losses) or gains on available for sale instruments	(616)
Tier 2 capital before regulatory adjustments	**324**
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)	**324**
Total capital (TC = T1 + T2)	**53,919**
Total risk weighted assets	**374,639**

Basel III common disclosure template to be used during the transition of regulatory	(RO'000)
	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
Of which: Credit risk weighted assets	352,812
Of which: Market risk weighted assets	9,106
Of which: Operational risk weighted assets	12,721
Capital Ratios	
Common Equity Tier 1 (as a percentage of risk weighted assets)	14.14
Tier 1 (as a percentage of risk weighted assets)	14.14
Total capital (as a percentage of risk weighted assets)	14.39
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)	9.500
National Tier 1 minimum ratio (if different from Basel 3 minimum)	11.500
National total capital minimum ratio (if different from Basel 3 minimum)	13.500
Total Quasi Equity account holders	
Amount of Quasi Equity account holders' funds	450,418
Profit equalization reserve	1,026
Investment risk reserve	440
Total Quasi equity account holders	**451,884**

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 31-Dec-24
Assets	
Cash and balances with Central Bank of Oman	35,051
Certificates of deposit	-
Due from banks	103,138
Financing to banks	-
Financing to Customers	342,585
Investments	40,202
Property and equipment	915
Deferred tax assets	-
Other assets	3,258
Total assets	**525,149**

BASEL III – Transition Disclosure: (continued)

Balance sheet as in published financial statements	(RO'000s)
	Balance sheet as in published financial statements 31-Dec-24
Liabilities	
Due to banks	132,794
Customer deposits	329,821
Euro medium term notes	-
Other liabilities	8,188
Subordinated bonds	-
Total liabilities	**470,803**
Shareholders' Equity	
Assigned capital	40,000
Share premium	-
Legal reserve	-
General reserve	-
Retained earnings	13,595
Other reserves	1,367
Cumulative changes in fair value of investments	(616)
Subordinated debt reserve	-
Tier 1 perpetual bond	-
Total shareholders' equity	**54,346**
Total liability and shareholders' funds	**525,149**

Balance sheet as in published financial statements expanded		(RO'000s)
	Balance sheet as in published financial statements 31-Dec-24	Reference
Assets		
Cash and balances with Central Bank of Oman	35,051	
Certificates of deposit	-	
Balance with banks and money at call and short notice	103,138	
Investments	40,202	
Financing Of which:		
Financing to Banks - Gross	-	
General Provisions considered for Tier 2	-	
Net Financing to banks	**-**	
Financing to Customers - Gross	348,759	
ECL Stage 1	(616)	
ECL Stage 2	(2,010)	A1
ECL Stage 3	(3,548)	
Net Financing to customers	**342,585**	

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Balance sheet as in published financial statements expanded		(RO'000s)
	Balance sheet as in published financial statements 31-Dec-24	Reference
Fixed assets	915	
Other assets of which:	3,258	
Deferred tax assets	-	
Amount considered for CET1		
Current year allocation - not eligible	-	
Total Assets	**525,149**	
Paid-up Capital of which:	-	
Amount eligible for CET1	40,000	C1
Amount eligible for AT1	-	
Reverses and Surplus	13,595	
Of which: Amount eligible for CET1		
Retained earnings carried forward	7,886	C2
Profit for current year not eligible	5,709	
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	(616)	
Amount eligible for Tier 2	-	
Other reserve	1,367	
Total Capital	**54,346**	
Deposits Of which:		
Deposits from banks	132,794	
Customer deposits	329,821	
Euro medium term notes	-	
Other deposits (Sub-debt)	-	
Other liabilities & provisions Of which:	8,188	
TOTAL	**525,149**	

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	40,000	C1
Retained earnings	13,595	C2
Accumulated other comprehensive income (and other reserves)	-	
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
Common Equity Tier 1 capital before regulatory adjustments	**53,595**	
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)	**53,595**	
Additional Tier 1 capital: instruments (TIER1 PERPETUAL BOND)	**-**	
Additional Tier 1 capital: regulatory adjustments - Nil		
Tier 1 capital (T1 = CET1 + AT1)	**53,595**	
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	940	A1
Cumulative fair value gains or losses on available for sale instruments	(616)	
Tier 2 capital before regulatory adjustments	**324**	
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)	**324**	
Total capital (TC = T1 + T2)	**53,919**	

MUZN ISLAMIC BANKING
Basel-II Pillar III and Basel-III Report 2024

Disclosure template for main features of all regulatory capital instruments

Common Equity

Common equity comprises of assigned capital amounting to RO 40,000,000 transferred from National Bank of Oman SAOG.

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 26 January 2025.

Amal Suhail Bahwan Al Mukhaini
Chairperson

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Independent Auditor's report to the Board of Directors of National Bank of Oman SAOG on the financial statements of Muzn Islamic Banking - Window

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Muzn Islamic Banking - Window (the "Window") of National Bank of Oman SAOG (the "Bank") as at 31 December 2024, and its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI").

What we have audited

The Window's financial statements comprise:

- the statement of financial position as at 31 December 2024;
- the statement of income and other comprehensive income for the year then ended;
- the statement of income and attribution related to quasi equity for the year then ended;
- the statement of changes in owner's equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by (AAOIFI). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Window in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics for Accountants and Auditors of Islamic Financial Institutions.

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Emphasis of matter

We draw attention to the fact that, as described in Note 2 to the financial statements, the Window has not operated as a separate entity. These financial statements are, therefore, not necessarily indicative of results that would have occurred if the Window had been a separate stand-alone entity during the year presented or of future results of the Window.

Our opinion is not modified in respect of this matter.

Other information

The Bank's Board of Directors are responsible for the other information. The other information comprises the report of the Shari'a Supervisory Board and Basel II - Pillar III and Basel III Report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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

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

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

Responsibilities of the Bank's Board of Directors for the financial statements

These financial statements and the Window's undertaking to operate in accordance with Islamic Sharia Rules and Principles, as determined by the Sharia Supervisory Board, are the responsibility of the Bank's Board of Directors.

The Bank's Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Financial Accounting Standards issued by the AAOIFI and the relevant requirements of the CBO, and for such internal control as the Bank's Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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Independent Auditor's report to the Board of Directors of National Bank of Oman SAOG on the financial statements of Muzn Islamic Banking - Window (continued)

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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Independent Auditor's report to the Board of Directors of National Bank of Oman SAOG on the financial statements of Muzn Islamic Banking - Window (continued)

Auditor's 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 Bank's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

As required by clause no. 1.4.3 of Title 3 'Accounting Standards and Auditor Reports' of Islamic Banking Regulatory Framework, we report that, we have:

a) received all required information and explanations to prepare the report.
b) carried out any other procedures considered necessary as required by AAOIFI and the Central Bank of Oman.

Further we report that the Window has complied with the Islamic Shari'a Principles and Rules as determined by the Shari'a Supervisory Board of the Window during the period under audit.

PricewaterhouseCoopers

Muscat, Sultanate of Oman
04 March 2025

برايس وترهاوس كوبرز ش م م
C.R. No 1230866
PricewaterhouseCoopers LLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

	Note	2024	2023 (RO'000)
ASSETS			
Cash and balances with Central Bank of Oman	6	**35,051**	21,585
Due from banks and financial institutions	7	**103,138**	57,641
Investments in Sukuk, shares and other securities	8	**40,202**	26,109
Murabaha receivables	9	**23,608**	10,661
Ijarah Muntahia Bittamleek	10	**48,721**	48,883
Diminishing Musharaka	11	**176,400**	135,685
Forward Ijarah	12	**283**	345
Service Ijarah	13	**17**	18
Wakala Bil Istithmar	14	**93,525**	71,159
Credit Card	15	**31**	-
Other assets	17	**3,258**	3,533
Property and equipment	16	**915**	180
Total assets		**525,149**	375,799
LIABILITIES, QUASI EQUITY HOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Current accounts		**10,342**	22,469
Due to banks and financial institutions	18	**389**	786
Other liabilities	19	**8,188**	7,030
TOTAL LIABILITIES		**18,919**	30,285
QUASI-EQUITY			
Participatory investment accounts	21	**451,884**	301,245
OWNERS' EQUITY			
Assigned capital	22	**40,000**	35,000
Impairment reserve		**1,367**	605
Retained earnings		**13,595**	8,648
Investment fair value reserve		**(616)**	16
TOTAL OWNERS' EQUITY		**54,346**	44,269
TOTAL LIABILITIES, QUASI EQUITY HOLDERS AND OWNERS' EQUITY		**525,149**	375,799

The financial statements were approved by the Board of Directors on 26 January 2025.

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

The notes 1 to 32 form part of these financial statements.

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2024

	Note	2024	2023 (RO'000)
Income			
Income from Islamic financing and receivables	23	**17,897**	12,443
Inter-bank Wakala		**3,988**	2,450
Investment income		**1,325**	1,058
Income from jointly financed investments and receivables		**23,210**	15,951
Other operating income	25	**2,023**	931
Total operating income		**25,233**	16,882
General and administrative expenses	26	**(2,214)**	(2,028)
Depreciation	16	**(310)**	(179)
Total operating expenses		**(2,524)**	(2,207)
Profit before impairment losses		**22,709**	14,675
Impairment for credit losses – net	20	**624**	(1,690)
Profit before net profit attributable to Quasi-Equity		**23,333**	12,985
Net Profit attributable to Quasi-Equity		**(17,624)**	(10,321)
Profit for the year		**5,709**	2,664
OTHER COMPREHENSIVE INCOME **Items that will not be reclassified to profit or loss**			
Equity investments at FVOCI – net change in fair value		**(632)**	39
Total comprehensive income for the year		**5,077**	2,703

STATEMENT OF INCOME AND ATTRIBUTION RELATED TO QUASI-EQUITY

For the year ended 31 December 2024

		(RO'000)
	2024	2023
Net profit for the year before net profit attributable to quasi-equity	**23,333**	12,985
Less: Income not attributable to quasi-equity	**(7,870)**	(6,728)
Add: Expenses not attributable to quasi-equity	**1,900**	3,897
Total income available for Quasi Equity holders	**17,363**	10,154
Profit equalization reserve – net movement	**228**	154
Investment risk reserve – net movement	**107**	70
Net profit attributable to quasi-equity before Mudarib's share	**17,698**	10,378
Less: Mudarib's share	**(74)**	(57)
Net profit attributable to quasi-equity	**17,624**	10,321

STATEMENT OF CHANGES IN OWNER'S EQUITY

For the year ended 31 December 2024

					(RO'000)
	Assigned capital	Impairment reserve	Investment fair value reserve	Retained earnings	Total
Balance as at 1 January 2024	**35,000**	**605**	**16**	**8,648**	**44,269**
Profit for the year	**-**	**-**	**-**	**5,709**	**5,709**
Additional capital	**5,000**	**-**	**-**	**-**	**5,000**
Transfer to impairment reserve	**-**	**762**	**-**	**(762)**	**-**
Other comprehensive loss for the period	**-**	**-**	**(632)**	**-**	**(632)**
Balance as at 31 December 2024	**40,000**	**1,367**	**(616)**	**13,595**	**54,346**
Balance as 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
Other comprehensive income for the period	-	-	39	-	39
Balance as at 31 December 2023	35,000	605	16	8,648	44,269

The notes 1 to 32 form part of these financial statements.

MUZN ISLAMIC BANKING

STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

			RO'000
	Note	2024	2023
Operating activities			
Profit for the year		**5,709**	2,664
Adjustment for:			
Depreciation	16	**310**	179
Impairment for credit losses – net	20	**(624)**	1,690
Investment amortization		**(40)**	39
Loss on investments at FVTPL	25	**35**	(31)
Profit equalization reserve	21	**228**	154
Investment risk reserve	21	**107**	70
Operating income before changes in operating assets and liabilities		**5,725**	4,765
Changes in:			
Murabaha receivables	9	**(13,112)**	(5,504)
Ijarah Muntahia Bittamleek	10	**(795)**	7,227
Diminishing Musharaka	11	**(38,917)**	(19,003)
Forward Ijarah	12	**61**	148
Service Ijarah	13	**1**	3
Wakala Bil Istithmar	14	**(22,414)**	(71,342)
Credit Card	15	**(31)**	-
Other assets	17	**275**	(685)
Due to Banks and financial institutions		**(397)**	31,615
Current accounts		**(12,127)**	10,929
Other liabilities	19	**1,133**	3,471
Net cash generated from / (used in) operating activities		**(80,598)**	(38,376)
Investing activities			
Purchase of property and equipment	16	**(892)**	(171)
Purchase of investments		**(14,740)**	(5,654)
Net cash used in investing activities		**(15,632)**	(5,825)
Financing activities			
Increase in balances of Quasi Equity holders	21	**150,304**	89,349
Additional share capital	22	**5,000**	15,000
Payment of lease liabilities (principal)		**(129)**	-
Net cash generated from financing activities		**155,175**	104,349
Net increase in cash and cash equivalents		**58,946**	60,148
Cash and cash equivalents at the beginning of the year		**79,243**	19,095
Cash and cash equivalents at the end of the year		**138,189**	79,243
REPRESENTING:			
Cash and balances with Central Banks		**35,051**	21,585
Due from banks maturing within three months		**103,138**	57,658
		138,189	79,243

Profit received was RO 23 million (2023: RO 15 million) and profit paid was RO 16 million (2023: RO 7 million). These are part of the operating cash flows of the Bank. There are no significant non-cash changes to be disclosed for 2024 and 2023.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2024

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Muzn Islamic Banking - Window of National Bank of Oman SAOG ('Muzn' or "the Window") was registered in the Sultanate of Oman as a Window of National Bank of Oman SAOG. Muzn's principal place of business is in Muscat, Sultanate of Oman. Muzn's operations commenced on 17 January 2013 and it currently operates through seven branches in the Sultanate under the license issued by the Central Bank of Oman on 15 January 2013.

The principal 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 62 employees as at 31 December 2024 (2023: 59).

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 Organization 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 IFRS Accounting 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 Zakah 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.

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 directors 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.

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.

MUZN ISLAMIC BANKING

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 recognized in statement of income.

3.2 Cash and cash equivalents

Cash and cash equivalents are carried at amortized cost in the statement of financial position. 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 balance 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 Determination of fair values

A number of the Window'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 several 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.

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 Window 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

Fair value is determined for each financial asset individually in accordance with the valuation policies set out in note 5.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Window 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 Window 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 Window verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents.

The Window 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 Window has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3 MATERIAL ACCOUNTING POLICIES (continued)

3.4 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 recognized amounts and there is an intention to settle on a net basis, or realize 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.

3.5 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Window 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 Window 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 writeoff 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 Window 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 Window 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 Murabaha receivables

Murabaha receivables are stated net of deferred profits and allowances for credit losses. Muzn considers the promise made in the deferred sales to the purchase order 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 order is binding upon the customer.

3.7 Ijarah Muntahia Bittamleek

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 recognized in the statement of income and other comprehensive income.

3.8 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 utilization 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.

3.9 Forward Ijarah

Forward Ijarah is a specific type of Ijara contract structured to facilitate the leasing of an asset that is not yet in existence or not immediately available for use. After completion of the project, Forward Ijara follows the same principle as that of Ijarah Muntahia Bittamleek

3.10 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.

3.11 Wakala Bil Istithmar

The Window invests money with banks and other customers on Wakala bil Istithmar basis in return for a Wakala Profit. The Window also accepts money from customers on Wakala bil Istithmar basis on unrestricted Wakala arrangement. The arrangement may include an agreement that any profit over and above the expected profit rate will be retained by Wakil as performance fee. The principal would be responsible to bear any loss of Wakala Capital unless it is due to the negligence of Wakala contractual terms on the part of Wakil.

Wakala Investment Accounting

FAS 31 requires the principal to evaluate the nature of the investment as either a) a pass-through investment or b) Wakala venture.

In case of a pass-through investment approach, the principal shall initially recognize the assets underlying the Wakala arrangement in its books of account applying the initial recognition principles as applicable in line with respective FAS.

In case of Wakala venture approach, an investment shall be accounted for in the books of the investor applying the "equity method of accounting where the investment shall be recognized initially at cost and subsequently shall be measured at the end of the financial period at carrying amount and shall be adjusted to include the investor's share in profit or loss of the Wakala venture, net of any agent's remuneration including variable remuneration payable as of that date.

From the principal's perspective, the Window opted to use Wakala venture approach using equity method of accounting instead of pass-through approach given the practical difficulties for the principal to identify the assets in which funds are invested in and the principal is unable to obtain relevant information with regards to the assets and their performance without undue cost and efforts.

The Window provides funds to other banks and non-banking customers under this Wakala venture arrangement where the Window is acting as principal. Those Wakala funds are mainly invested in money market placements and other Shari'a-compliant businesses.

MUZN ISLAMIC BANKING

3 MATERIAL ACCOUNTING POLICIES (continued)

3.12 Credit card

Credit card provide a revolving credit facility within the credit limit and credit period determined by the issuer of card. MUZN credit cards are based on the concept of Qard Hassan and Ujra. The holder of a card can utilize the limit to pay for purchase of goods and services and to withdraw cash. The Window charges the customers a fixed monthly fee (fees vary depending upon the type of card) irrespective of the amount utilized for the services / facilities associated with the card. The Window may refund the Ujrah fee back to customers if due amount is paid on or before the due date. Ujra Fee is recognized to income when not returned to customers

3.13 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated to write off the cost of property and equipment, by equal installments 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:

Leasehold improvements	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 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 considered in determining operating profit. Repairs and renewal charged to statement of income and other comprehensive income when the expense is incurred. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in statement of income as an expense when incurred.

3.14 Quasi Equity holders

Funds of Quasi Equity holders are 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 Quasi Equity holders. 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 Quasi Equity holders are allocated between the owners' equity and Quasi Equity holders. 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. Sukuk, shares and other securities.

3.15 Sukuk, shares and other securities

Equity-type instruments at fair value through profit and loss

Investments at fair value through profit or loss include investments held for trading and investments designated upon initial recognition as investments at fair value through profit or loss.

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.

Equity-type instruments at fair value through other comprehensive income (FVOCI)

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 other comprehensive income. Subsequent to acquisition, investments designated at fair value through other comprehensive income are re-measured at fair value with unrealised gains or losses recognized in owner's equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in the owner's equity are never recycled to statement of inome. Where a reliable measure of fair value for equity instruments is not available, these are measured at cost. Investments carried at fair value through other comprehensive income are tested for impairment at each reporting period.

Dept 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 profit or loss 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.

3.16 Investment risk reserve

Investment risk reserves (IRR) are amounts appropriated out of the equity of investment account holders, after allocating the Mudarib share, to cater against future losses for equity of investment account holder.

3.17 Profit equalization reserve

Profit equalization reserves (PER) are amounts appropriated out of the Mudaraba income, before allocating the Mudarib share, to maintain a certain level of return on investments for equity of investment account holder.

3.18 Provisions

Provisions are recognized 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.

3.19 Earnings prohibited by shari'ah

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.

3.20 Zakah

The responsibility of payment of zakah is on individual shareholders and investment account holders.

3.21 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.

3.22 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.

3.23 Revenue recognition

3.23.1 Murabaha profit

Murabaha profit is recognized when the income is quantifiable and contractually determined at the commencement of the contract, income will be recognized 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 realized. Income related to non-performing accounts will be excluded from the statement of income.

MUZN ISLAMIC BANKING

3 MATERIAL ACCOUNTING POLICIES (continued)

3.23 Revenue recognition (continued)

3.23.2 Diminishing Musharaka

Income on Musharaka is recognized when the right to receive payment is established or when distribution is made, net of suspended profit.

3.23.3 Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek (Ijarah MBT) is an Ijarah arrangement which, in addition to the Ijarah contract, includes a promise resulting in transfer of the ownership of the underlying asset to the lessee, after the end of the term of the Ijarah period. Such transfer of the ownership is executed through a sale or a gift– independent of Ijarah contract.

The Islamic Window, in its capacity as a lessor classifies its Ijarah as an Ijarah MBT – with expected transfer of ownership after the end of the Ijarah term – either through a sale or a gift

Assets acquired for Ijarah are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the period of the lease or useful life, whichever is lower. Ijarah income receivables represent outstanding rentals at the end of the period less any expected credit losses.

3. 23.4 Service Ijarah

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognized 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 realized. Income related to non-performing accounts will be excluded from the statement of income.

3.23.5 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.

3.23.6 Dividend income

Dividend income will be recognized when the Window's right to receive payment is established.

3.23.7 Fee and Commission Income

The Window 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 Window 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 Window based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Window 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.

Miscellaneous income

Miscellaneous income includes various services charges charged to the customers such as locker rent, telex charges, ATM charges and charges for non- maintenance of minimum balance. Fees in scope of IFRS 15 are recognised when the Window transfers control over a product or service to a customer, this is generally at a point in time.

3.23.8 Sukuk & investment income

Income on Sukuk is recognized on a time-proportionate basis based on underlying rate of return of the respective type of Sukuk.

Income from investments is recognized when earned.

3.23.9 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.

3.23.10 Income allocation

Income from jointly financed activities will be allocated proportionately between unrestricted investment accounts and shareholders based on the average balances outstanding during the year.

3.24 Staff terminal benefits

Contribution to a defined contribution retirement plan for Omani employees, in accordance with the Oman Social Insurance Scheme, is recognized 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 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 is recognized 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 recognized 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.

3.25 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.

3.26 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 one non-voting member who is an expert in the field. The current SSB members are:

- Dr. Muhammad Zubair Usmani -Chairman
- Dr. Abdulrahman Abdullah Al-Saadi - Member
- H.H. Dr. Adham Al Said - Member
- Saleh Al Kharusi - Member

3.27 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 amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

3 Material Accounting Policies (continued)

3.23 Revenue recognition (continued)

(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 recognized 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 recognizes 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 recognized on the trade date, i.e. the date that the Window contracts to purchase or sell the asset or liability.

(d) Derecognition

Financial assets are derecognized 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 derecognized 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 FVTPL, together with financing commitments and financial guarantee contracts.

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 orientation, 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 2 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 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 recognized.

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 recognized. LTECL (Stage 2) is a probability – weighted estimate of credit losses and it is determined based on the difference between the present value of all cash shortfalls. difference recognized. The cash shortfall is 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 recognized based on a credit-adjusted effective profit rate (EPR). ECLs are only recognized 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.

The calculation of ECLs

The Window calculates ECLs based on three 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 derecognized and is still in the portfolio.

EAD - The Exposure at Default is an estimate of the exposure at a future default date, considering 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 realization of any collateral, if any. It is usually expressed as a percentage of the EAD.

Credit-impaired financial assets

At each reporting date, the Window assesses whether financial assets carried at amortized 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 reorganization; 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 credit-worthiness.
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.

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3 Material Accounting Policies (continued)

3.27 Financial Instruments (continued)

(e) Impairment (continued)

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.

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 amortized 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 1 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 calculations

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 quantitative, qualitative or backstop criteria have been met. Refer to note 29.1 for details of the quantitative and qualitative criterias.

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.

Macroeconomics 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.

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.

3.28 Right-of-use asset

The Window recognizes 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 amortization 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 amortizes 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 recognized under “Property and equipment “in the statement of financial position.

3.29 Ijarah liability

At the commencement date of the lease (i.e., the date the underlying asset is available for use), the Window recognizes 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 amortization 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 recognized under “Other liabilities” in the statement of financial position.

3.30 Due to banks

Due to banks and financial institutions comprise of payables under Wakala contracts. These are recognized 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 Window acts as agent and corresponding bank is Muwakkil.

3.31 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 amortized cost net of deferred profits and allowance for credit losses. if any

3.32 Current accounts

Customers' current accounts balances are in non-investment accounts and are recognized 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.

3.33 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 derecognized when the obligation specified in the contract is discharged, cancelled or expires.

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3 MATERIAL ACCOUNTING POLICIES (continued)

3.34 New standards, amendments and interpretations

3.34.1 New standards, amendments and interpretations issued and adopted

Standards issued and effective from 1 January 2024

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 2024:

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 is effective from the financial periods beginning on or after 1 January 2024. The adoption of this standard did not result in changes to previously reported net profit or equity of the Window.

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 is effective from the financial periods beginning on or after 1 January 2024. The adoption of this standard did not result in changes to previously reported net profit or equity of the Window.

3.34.2 New standards, amendments and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued by AAOIFI, but not yet effective, up to the date of issuance of the Window's financial statements are disclosed below. The Window intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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 about 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.

FAS 48 Promotional Gifts and Prizes

AAOIFI has issued FAS 48 in 2024, the objective of this standard is to prescribe the accounting and financial reporting requirements applicable to promotional gifts and prizes awarded by the Islamic financial institutions (IFIs / the institutions) to their customers, including quasi-equity and other investment accountholders. This standard shall be read in conjunction with AAOIFI Shari' ah Standard (SS) 55 "Competitions and Prizes", which provides the Shari'ah principles and rules under which such programs and their respective types can be offered.

This standard shall be effective on the financial statements for the annual financial reporting period beginning on or after 1 January 2026.

FAS 49 Financial Reporting for Institutions Operating in Hyperinflationary Economies

AAOIFI has issued FAS 49 in 2024, The objective of this standard is to establish the principles of financial reporting for the institutions applying AAOIFI Financial Accounting Standards (FASs) operating in hyperinflationary economies, duly considering the relevant Shari'ah principles and rules and their unique business models. This standard is applicable to the institutions preparing financial statements in line with the requirements of AAOIFI FASs, whose functional currency is the currency of a hyperinflationary economy and also be applicable on consolidated financial statements of an institution to the extent of impacts relating to a subsidiaries whose functional currencies is the currencies of a hyperinflationary economy.

This standard shall be effective on the financial statements for the annual financial reporting period beginning on or after 1 January 2026.

FAS 50 Financial Reporting for Islamic Investment Institutions (Including Investment Funds)

AAOIFI has issued FAS 50 in 2024,The objective of this standard is to set out the principles of financial reporting for Islamic investment institutions ((IIs) particularly prescribing overall requirements for the presentation, minimum contents and recommended structure of their financial statements in a manner that facilitates truthful and fair presentation in line with Shari' ah principles and rules. This standard shall apply to all Islamic investment institutions (IIIs) and also apply to employee retirement benefit funds managed by the Islamic financial institutions (IFIs) for the benefit of their own employees, in addition to the requirements of generally accepted accounting principles. This standard shall be read in conjunction with the requirements of "Part 1: Applicable on all institutions" of FAS 1 "General Presentation and Disclosures in the Financial Statements", whereby the provisions of this standard shall be considered along with the requirements prescribed therein about the general presentation and disclosures in the financial statements of all IFIs. However, the specific provisions of this standard shall apply in case of a conflict between the requirements of the two standards.

This standard shall be effective on the financial statements for the annual financial reporting period beginning on or after 1 January 2026.

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4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements pertain to the following:

4.1 ECL measurement

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 3.26. The calculation of the Window's ECL under FAS 30 requires the Window to make several judgements, assumptions and estimates. The most significant are set out below:

1) Segmentation of financial assets for the ECL assessment purposes;
2) Establishing the criteria for assessing if there has been a significant increase in credit risk;
3) Determining the methodology for incorporating forward-looking information into the measurement of ECL;
4) Selection of forward-looking macroeconomic scenarios and their probability weightings;
5) Selection of appropriate models (PD, LGD and EAD) for the measurement of ECL; and
6) Determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

Refer note 29.1 which describes the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

The Window regularly reviews the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

4.2 Going concern

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

5 FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2024 and 2023 are considered by the Management not to be materially different to their book values.

Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of assets and liabilities:

5.1 Islamic financing assets

Fair value is calculated based on discounted expected future principal and interest cash flows. Financing repayments are assumed to occur at contractual repayment dates, where applicable. For financing that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when profit rates were at levels similar to current levels, adjusted for any differences in profit 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 finances reflect changes in credit status since the finances were made and changes in profit rates in the case of fixed rate finances.

5.2 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.

5.3 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.

5.4 Quasi equity accountholders

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 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.

5.5 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. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices. Industry standard valuation models are used to calculate the expected future value of payments by product, which is discounted back to a present value. The model's interest rate inputs are benchmark and active quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced from brokers and consensus data providers. If consensus prices are not available, these are classified as Level 3 instruments.

The Window 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 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.

5 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

			RO'000
	Level 1	**Level 2**	**Total**
31 December 2024			
Investment measured at FVTPL			
Quoted equities	**1,043**	**-**	**1,043**
Total	**1,043**	**-**	**1,043**
Investment measured at FVOCI			
Quoted equities	**7,489**	**-**	**7,489**
Total	**7,489**	**-**	**7,489**
Total financial assets	**8,532**	**-**	**8,532**

			RO'000
	Level 1	Level 2	Total
31 December 2023			
Investment measured at FVTPL			
Quoted equities	1,077	-	1,077
Total	1,077	-	1,077
Investment measured at FVOCI			
Quoted equities	2,750	-	2,750
Total	2,750	-	2,750
Total financial assets	3,827	-	3,827

6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN (“CBO”)

		RO'000
	2024	2023
Cash in hand	**1,156**	892
Balances with Central Bank of Oman	**33,895**	20,693
	35,051	21,585

All the above exposures are classified as Stage 1 as at 31 December 2024 (2023: Stage 1).

ECL on the cash and balances with Central Bank of Oman is not material and accordingly no adjustment has been made by Muzn.

7 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

		RO'000
	2024	2023
Due from foreign banks	**66,602**	39,158
Due from local banks	**36,555**	18,500
	103,157	57,658
Less: Allowances for credit losses	**(19)**	(17)
	103,138	57,641

8 INVESTMENT IN SUKUK, SHARES & OTHER SECURITIES

		RO'000
	2024	2023
Investments measured at Fair value through profit and loss (FVTPL)		
Quoted investments-Oman	**1,043**	1,077
Investments measured at Fair value through other comprehensive income		
Quoted investments- local	**6,251**	1,565
Quoted investments- foreign	**1,238**	1,185
Total investments measured through other comprehensive income	**7,489**	2,750
Investments in Sukuk, shares and other securities		
Government Sukuk	**31,684**	22,292
Less: Allowance for credit losses (refer 8.1)	**(14)**	(10)
Total financial assets at amortized cost	**31,670**	22,282
	40,202	26,109

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

		RO'000
	2024	2023
Balance at 1 January	**10**	28
Added/(release) during the year	**4**	(18)
Balance at 31 December	**14**	10

9 MURABAHA RECEIVABLES

		RO'000
	2024	2023
Gross Murabaha receivables	**24,995**	11,652
Less: Deferred profit (refer note 9.1)	**(1,162)**	(930)
	23,833	10,722
Less: Allowances for credit losses	**(225)**	(61)
	23,608	10,661

The Murabaha receivables pertain to finance provided to retail and corporate customers. The credit quality of the Murabaha receivables is disclosed in note 29.

9.1 Deferred profit movement

		RO'000
	2024	2023
Deferred profit at the beginning of the period	**930**	620
Murabaha sales revenue during the period	**13,538**	8,070
Murabaha cost of sales	**(13,306)**	(7,760)
Deferred profit at the end of the period	**1,162**	930

10 IJARAH MUNTAHIA BITTAMLEEK

		RO'000
	2024	2023
Gross book value	**119,955**	114,006
Accumulated depreciation	**(69,013)**	(64,088)
Net book value at 31 December	**50,942**	49,918
Less: Allowances for credit losses	**(2,221)**	(1,035)
	48,721	48,883

The Ijarah pertains to finance provided to retail and corporate customers. The credit quality of the Ijarah is disclosed in note 29.

11 DIMINISHING MUSHARAKA

		RO'000
	2024	2023
Diminishing Musharaka receivables	**179,891**	140,973
Less: Allowances for credit losses	**(3,491)**	(5,288)
	176,400	135,685

Diminishing Musharaka pertains to finance provided to retail and corporate customers. The credit quality of the Diminishing Musharaka is disclosed in note 29.

12 FORWARD IJARAH

		RO'000
	2024	2023
Forward Ijarah receivables	**290**	352
Less: Allowances for credit losses	**(7)**	(7)
	283	345

Forward Ijarah pertains to finance provided to retail and corporate customers. The credit quality of the Forward Ijarah is disclosed in note 29.

13 SERVICE IJARAH

		RO'000
	2024	2023
Gross deferred Service Ijarah	**19**	20
Less: Unearned income	**(2)**	(2)
	17	18
Less: Allowances for credit losses	**-**	-
	17	18

Service Ijarah pertains to finance provided to retail customers. The credit quality of the Service Ijarah is disclosed in note 29.

14 WAKALA BIL ISTITHMAR

		RO'000
	2024	2023
Wakala Bil Istithmar	**93,756**	71,342
Less: Allowances for credit losses	**(231)**	(183)
	93,525	71,159

Wakala Bil Istithmar pertains to finance provided to retail and corporate customers. The credit quality of the Wakala Bil Istithmar is disclosed in note 29.

15 CREDIT CARD

		RO'000
	2024	2023
Credit Card	**31**	-
Less: Allowances for credit losses	**-**	-
	31	-

Credit Card pertains to finance provided to retail customers. The credit quality of the product is disclosed in note 29.

16 PROPERTY AND EQUIPMENT

				RO'000
	Motor Vehicles, furniture and equipment	**Leasehold Improvement**	**Right-of-use Asset**	**Total**
Cost				
At 1 January 2024	**1,375**	**586**	**342**	**2,303**
Additions	**756**	**136**	**153**	**1,045**
Disposals	**(29)**	**(68)**	**(341)**	**(438)**
At 31 December 2024	**2,102**	**654**	**154**	**2,910**
Accumulated Depreciation				
At 1 January 2024	**1,289**	**549**	**285**	**2,123**
Charge for the year	**131**	**56**	**123**	**310**
Disposals	**(29)**	**(68)**	**(341)**	**(438)**
At 31 December 2024	**1,391**	**537**	**67**	**1,995**
Net carrying amount				
At 31 December 2024	**711**	**117**	**87**	**915**

				RO'000
	Motor Vehicles, furniture and equipment	Leasehold Improvement	Right-of-use Asset	Total
Cost				
At 1 January 2023	1,293	564	307	2,164
Additions	83	22	66	171
Disposals	(1)	-	(31)	(32)
At 31 December 2023	1,375	586	342	2,303
Accumulated Depreciation				
At 1 January 2023	1,249	526	201	1,976
Charge for the year	41	23	115	179
Relating to disposals	(1)	-	(31)	(32)
At 31 December 2023	1,289	549	285	2,123
Net carrying amount				
At 31 December 2023	86	37	57	180

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17 OTHER ASSETS

	RO'000	
	2024	2023
Profit receivable	**2,923**	2,872
Acceptances	**108**	241
Miscellaneous assets	**227**	420
	3,258	3,533

18 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	RO'000	
	2024	2023
Due to National Bank of Oman	**389**	786

19 OTHER LIABILITIES

	RO'000	
	2024	2023
Profits payable	**7,121**	5,837
Sundry creditors	**1,042**	1,193
Lease liabilities	**25**	-
	8,188	7,030
Lease liabilities movement		
Balance at 1 January	**-**	44
Additions during the year	**153**	66
Finance charges on leases	**1**	1
Payment of lease liabilities (principal)	**(129)**	(111)
Balance at 31 December	**25**	-

The lease liabilities are maturing within 1 to 5 years

20 MOVEMENT IN ALLOWANCES FOR THE CREDIT LOSSES

	RO'000	
	2024	2023
At 1 January	**6,606**	4,818
(Release)/provided during the year	**(749)**	1,596
Recovered during the year	**125**	94
Contractual profit reserved	**227**	98
At 31 December	**6,209**	6,606

21 QUASI EQUITY – PARTICIPATORY INVESTMENT ACCOUNTS

	RO'000	
	2024	2023
Mudaraba savings account	**7,971**	8,379
Wakala from financial institutions	**132,405**	48,621
Wakala from customers	**310,042**	243,114
Profit equalization reserve	**1,027**	799
Investment risk reserve	**439**	332
Total	**451,884**	301,245

There are no restricted investments as of 31 December 2024 (2023: Nil).

Quasi Equity holders' fund is commingled with Window's equity to form one general Mudaraba pool. This pooled fund is used to 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 Quasi Equity holders pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to Quasi Equity holders. The profits earned on pool of assets funded from Quasi Equity holders and owners' equity are allocated between the owners' equity and Quasi Equity holders.

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 4.71% (2023: 3.76%).

Basis of distribution of the profit between owners' equity and Quasi Equity holders

The investment profits are distributed between owners' equity and Quasi Equity holders for the year ended 31 December 2024 and year ended December 2023 as follows:

	2024	2023
Quasi Equity holders 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 Quasi Equity holders. 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 Quasi Equity holders

22 ASSIGNED CAPITAL

The assigned capital consists of RO 40,000,000 transferred from National Bank of Oman SAOG (2023: RO 35,000,000). During the year, Muzn received additional capital of RO 5,000,000 from National Bank of Oman SAOG (2023: RO 15,000,000).

23 INCOME FROM FINANCING

	RO'000	
	2024	2023
Profit from Murabaha receivables	**794**	377
Profit from Ijarah Muntahia Bittamleek	**2,326**	2,758
Profit from Diminishing Musharaka	**9,948**	7,545
Profit from Wakala Bil Istithmar	**4,829**	1,763
	17,897	12,443

24 RETURN ON QUASI EQUITY HOLDERS

	RO'000	
	2024	2023
Mudarabha savings account	**51**	42
Wakala	**12,359**	6,989
Flex Wakala	**2,268**	1,235
Inter-bank Wakala	**2,611**	1,831
Total	**17,289**	10,097

25 OTHER OPERATING INCOME

	RO'000	
	2024	2023
Fee and commission income (refer note 25.1)	**1,085**	525
Dividend income	**572**	74
Profit on investments at FVTPL	**(35)**	31
Gains from foreign exchange dealings	**312**	168
Miscellaneous income	**89**	133
	2,023	931

25.1 Fee and commission income

	RO'000	
	2024	2023
Transactional	**31**	69
Trade Income	**45**	98
Account Services	**42**	33
Underwriting & Syndication	**967**	325
Total	**1,085**	525

26 General and administrative expenses

	RO'000	
	2024	2023
Salaries and allowances	**1,429**	1,357
Operating and administration costs	**707**	617
Establishment costs	**78**	54
	2,214	2,028

27 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise principal shareholders of NBO, directors of NBO, members of Shari'a Supervisory Board and key management personnel.

Key management personnel comprise those individuals of the Window who are involved in the strategic planning and decision making of Muzn.

27 RELATED PARTY TRANSACTIONS (continued)

In the ordinary course of business, Muzn conducts transactions with certain directors and shareholders of NBO and companies over which they have significant interest. Terms of these transactions are approved by the NBO's Board and Management.

Principal shareholders of NBO includes those shareholders who exercises significant influence on NBO and their close family members. Other related parties include the transaction with those entities which are controlled by the principal shareholders of NBO.

The aggregate amounts of balances with such related parties are as follows:

		RO'000
	2024 Others	2023 Others
Diminishing Musharaka	43,173	34,111
Murabaha receivables	133	-
	43,306	34,111
Customers' deposits	3,119	149

The statement of income includes the following amounts in relation to transactions with related parties:

		RO'000
	2024 Others	2023 Others
Income from Islamic financing	1,424	1,007
Profit expense from Islamic deposits	85	1
Remuneration paid to Sharia Supervisory Board Members		
Chairman		
- remuneration	8	8
- sitting fees paid	2	2
- other expenses paid	1	1
Others		
- remuneration proposed	14	15
- sitting fees paid	1	11
- other expenses paid	1	1
- management fee payable to conventional banking (refer 27.1)	256	162

27.1 Muzn Islamic banking pays NBO management fees for the shared services at 1% on gross income (that includes fees and charges).

28 CONTINGENT LIABILITIES AND COMMITMENTS

28.1 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 nonperformance 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:

		RO'000
	2024	2023
Letters of credit	337	3,052
Letters of guarantee	8,303	6,572
	8,640	9,624

The contingent liabilities are concentrated to corporate and retail trade sector only.

28.2 Capital and investment commitments

		RO'000
	2024	2023
Contractual commitments for Forward Ijarah	37	1
Contractual commitments for Diminishing Musharaka	6,107	14,958
	6,144	14,959

28.3 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 consolidated financial statements.

29 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 Credit risk, Market risk, Liquidity risk and Operational risk. All risk management functions report to Chief risk officer and are independent from business units.

29.1 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.

The Window has enhanced credit risk management 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 and financial liabilities reported in the balance sheet and all the items reported in off balance are based in Sultanate of Oman.

29 FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

b) Customer concentrations

					(RO'000)
On Assets	**Due from Banks and financial institutions**	**Investments in Sukuk, shares and other securities**	**Murabaha receivables**	**Ijarah Muntahia Bittamleek**	**Credit Card**
31 December 2024					
Retail	-	-	6,501	38,071	31
Corporate	103,138	40,202	17,107	10,650	-
	103,138	40,202	23,608	48,721	31

				(RO'000)
On Assets	**Diminishing Musharaka**	**Forward Ijarah**	**Service Ijarah**	**Wakala Bil Istithmar**
31 December 2024				
Retail	20,989	270	17	-
Corporate	155,411	13	-	93,525
	176,400	283	17	93,525

					(RO'000)
On Liabilities	**Current accounts**	**Wakala accounts**	**Wakala from financial institutions**	**Due to banks and financial institutes**	**Mudaraba saving account (including reserves)**
31 December 2024					
Retail	464	53,398	-	-	9,437
Corporate	9,878	256,644	132,405	389	-
	10,342	310,042	132,405	389	9,437

				(RO'000)
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

				(RO'000)
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

					(RO'000)
On Liabilities	Current accounts	Wakala accounts	Wakala from financial institutions	Due to banks and financial institutes	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

(c) Economic sector concentrations

							RO'000
Assets	**Murabaha receivables**	**Ijara Muntahia Bittamleek**	**Diminishing Musharaka**	**Forward Ijara**	**Service Ijara**	**Wakala Bil Istithmar**	**Credit Card**
31 December 2024							
Personal	6,555	6,183	21,151	277	17	-	31
Construction	-	38,175	107,644	16	-	-	-
Manufacturing	2,501	5,845	13,988	-	-	-	-
Trade	14,239	-	-	-	-	-	-
Services	538	739	37,108	-	-	93,756	-
	23,833	50,942	179,891	290	17	93,756	31

		RO'000
	Current accounts	**Quasi Equity holders**
31 December 2024		
Personal	463	61,379
Services	9,879	390,505
	10,342	451,884

						RO'000
Assets	Murabaha receivables	Ijara Muntahia Bittamleek	Diminishing Musharaka	Forward Ijara	Service Ijara	Wakala Bil Istithmar
31 December 2023						
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

		RO'000
	Current accounts	Quasi Equity holders
31 December 2023		
Personal	488	48,368
Services	21,981	252,877
	22,469	301,245

29 FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

(d) Collateral and other credit enhancements

The Window 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 Window 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 Window'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 Window 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:

				RO'000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Property	147,856	49,380	16,357	213,593
Others	48,876	41,869	4,810	95,555
Balance As at 31 December 2024	**196,732**	**91,249**	**21,167**	**309,148**

				RO'000
	Stage 1	Stage 2	Stage 3	Total
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

There are no significant changes to the quality of collateral held by the Window as compared to 31 December 2023.

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
- A material decrease in the borrower's turnover or the loss of a major customer
- The debtor (or any legal entity within the debtor's group) filing for Bankruptcy application/protection.

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 scenario and 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 (2023: 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.

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 2024.

Key drivers	**ECL scenario and assigned weightage**	**31 December 2024**	
		2025	**2026**
Real Interest Rate	Base scenario	**7.1%**	**7.1%**
	Upside scenario	**6.3%**	**6.5%**
	Downside scenario	**8.4%**	**8.0%**
GDP	Base scenario	**4.0%**	**4.0%**
	Upside scenario	**4.2%**	**4.1%**
	Downside scenario	**3.7%**	**3.8%**
GDP per capita	Base scenario	**0.1%**	**0.05%**
	Upside scenario	**0.2%**	**0.2%**
	Downside scenario	**-0.2%**	**-0.1%**

The Bank has used 33.33% (2023- 33.33%) weightage for each of the scenario.

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
Real Interest Rate	Base scenario	7.1%	7.1%
	Upside scenario	5.9%	6.3%
	Downside scenario	8.9%	8.4%
GDP	Base scenario	2.9%	4.0%
	Upside scenario	4.3%	4.2%
	Downside scenario	2.9%	3.7%
GDP per capita	Base scenario	-1.0%	0.1%
	Upside scenario	0.3%	0.2%
	Downside scenario	-1.0%	-0.2%

29 FINANCIAL RISK MANAGEMENT (continued)

29.1 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.

In respect of corporate banking exposures the Window has adopted a risk rating framework having seven performing loan grades and three nonperforming loan grades. The Window's internal Risk Rating (RR) risk rates a customer and to associate a default probability to each rating grade. The following is the definition of credit quality classifications for the corporate banking exposures of the Bank.

Risk grade	Explanation
1-5	Probability of meeting financial commitments is high in the event of market disruptions
6	Probability of meeting financial commitments is moderate in the event of market disruptions
7	Potentially weak loans, where, if left uncorrected, the weakness may result in deterioration of the repayment prospects for the loans or bank's credit position at some future date.
8-10	Defaulted. Paying capacity of borrower requires reassessment and other forms of cash flows may be explored for any further recovery of exposure.

In respect of retail banking exposure the "performing finance" exposures include the retail accounts which are not delinquent by more than 90 days.

For due from banks and financial institutions, investment sukuks, shares and other securities and balances with central bank of Oman, the Window uses the Moody's external credit ratings.

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 realized 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.

Sensitivity analysis

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

- Profit rate, given its impact on companies' likelihood of default; and
- GDP, given the significant impact on companies' performance and collateral valuations.

The following table shows a comparison of the Window's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2024 and 2023 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

				RO 000's
	At 31 December 2024		At 31 December 2023	
	ECL	Impact on ECL	ECL	Impact on ECL
Sensitivity of impairment estimates				
ECL on non-impaired loans under IFRS9	2,660	-	4,752	-
Simulations				
Upside case - 100% weighted	2,274	386	4,101	651
Base case - 100% weighted	2,632	28	4,707	45
Downside scenario - 100% weighted	3,074	(414)	5,448	(696)

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 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.

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 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.

MUZN ISLAMIC BANKING

29 FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

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 or 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.

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 return 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 judgments. The changes to the assumptions underlying these judgmental adjustments could materially affect ECL within the next 12 month. 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 judgment. 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 2024 increased the ECL ratio by 0.29% compared to ECL allowance derived through the ECL models.

Impairment charge and provisions held as at 31 December 2024

			RO'000
	As per CBO Norms	**As per FAS 30**	**Difference**
Impairment loss charged to statement of income and other comprehensive income	**-**	**624**	**-**
Provisions required as per CBO norms / held as per IFRS 9/FAS 30	**6,849**	**5,240**	**(1,609)**
Gross NPF ratio		**2.41**	**-**
Net NPF ratio		**2.14**	**-**

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 statement of income and other comprehensive income	-	(1,690)	-
Provisions required as per CBO norms 1 / held as per IFRS 9/FAS 30	5,969	5,864	(105)
Gross NPF ratio	-	2.28	-
Net NPF ratio	-	2.02	-

The related difference 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.

MUZN ISLAMIC BANKING

29 FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2024.

RO'000

Asset Classification on 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 as per CBO Norms	Net Amount as as per FAS 30	Reserve Profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)+(9)-(5)	(7)=(3)-(5)	(8)=(3)-(5)	(9)
Standard	Stage 1	276,876	3,305	616	2,689	273,571	276,260	-
	Stage 2	38,747	40	804	(764)	38,707	37,943	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		**315,623**	**3,345**	**1,420**	**1,925**	**312,278**	**314,203**	**-**
Special Mention	Stage 1	-	-	-	-	-	-	-
	Stage 2	25,444	254	1,206	(952)	25,190	24,238	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		**25,444**	**254**	**1,206**	**(952)**	**25,190**	**24,238**	**-**
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	1,587	377	364	94	1,210	1,223	81
Subtotal		**1,587**	**377**	**364**	**94**	**1,210**	**1,223**	**81**
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	2,335	195	265	(49)	2,140	2,070	21
Subtotal		**2,335**	**195**	**265**	**(49)**	**2,140**	**2,070**	**21**
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	3,770	2,678	1,951	1,594	1,092	1,819	867
Subtotal		**3,770**	**2,678**	**1,951**	**1,594**	**1,092**	**1,819**	**867**
Other items not covered under CBO	Stage 1	151,994	-	33	(33)	151,994	151,961	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	3	-	1	(1)	3	2	-
Subtotal		**151,997**	**-**	**34**	**(34)**	**151,997**	**151,963**	**-**
Total	Stage 1	**428,870**	**3,305**	**649**	**2,656**	**425,565**	**428,221**	**-**
	Stage 2	**64,191**	**294**	**2,010**	**(1,716)**	**63,897**	**62,181**	**-**
	Stage 3	**7,695**	**3,250**	**2,581**	**1,638**	**4,445**	**5,114**	**969**
	Total	**500,756**	**6,849**	**5,240**	**2,578**	**493,907**	**495,516**	**969**

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2023.

RO'000

Asset Classification on 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 as per CBO Norms	Net Amount as as per FAS 30	Reserve Profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)+(9)-(5)	(7)=(3)-(5)	(8)=(3)-(5)	(9)
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	354	404	77
Subtotal		476	118	72	123	354	404	77
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	3,763	2,361	1,032	1,978	1,402	2,731	649
Subtotal		3,763	2,361	1,032	1,978	1,402	2,731	649
Other items not covered under CBO	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	1,930	3,351	741
	Total	366,726	5,969	5,864	846	360,757	360,862	741

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29 FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2024.

Restructured Financing

Amounts in RO '000

Asset Classification as per CBO Norms	Asset Classification as per FAS 30	Gross carrying amount	Provision required as per CBO Norms	Provision held as per FAS 30	Difference between CBO provision held under FAS 30	Net Carrying Amount as as per FAS 30	Reserve interest as per CBO Norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)+(10)-(5)	(7)=(3)-(5)	(8)
Classified as performing	Stage 1	201	2	-	2	201	-
	Stage 2	16,275	163	1,204	(1,041)	15,071	-
	Stage 3	-	-	-	-	-	-
Subtotal		16,476	165	1,204	(1,039)	15,272	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	238	64	92	(28)	146	16
Subtotal		238	64	92	(28)	146	16
Total	Stage 1	201	2	-	2	201	-
	Stage 2	16,275	163	1,204	(1,041)	15,071	-
	Stage 3	238	64	92	(28)	146	16
	Total	**16,714**	**229**	**1,296**	**(1,067)**	**15,418**	**16**

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2023.

Restructured Financing

Amounts in RO '000

Asset Classification as per CBO Norms	Asset Classification as per FAS 30	Gross carrying amount	Provision required as per CBO Norms	Provision held as per FAS 30	Difference between CBO provision held under FAS 30	Net Carrying Amount as as per FAS 30	Reserve interest as per CBO Norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)+(10)-(5)	(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	10	67	14
Subtotal		76	19	9	10	67	14
Total	Stage 1	196	2	2	-	194	-
	Stage 2	29,111	291	3,760	(3,469)	25,351	-
	Stage 3	76	19	9	10	67	14
	Total	29,383	312	3,771	(3,459)	25,612	14

29 FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

Movement in Expected credit losses (ECL) as at 31 December 2024

				RO'000
	Stage 1	Stage 2	Stage 3	Total
Exposure subject to ECL				
- Central bank balances	33,895	-	-	33,895
- Financing contracts with customers	276,876	64,191	7,692	348,759
- Investments in Sukuk	31,684	-	-	31,684
- Unutilized portion of financing contracts and Financial Guarantees	14,783	-	1	14,784
- Due from financial institutions	103,157	-	-	103,157
	460,396	64,191	7,692	532,279
Opening Balance as at 1 January 2024				
- Financing contracts with customers	409	4,311	1,854	6,574
- Investments in Sukuk	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
Transfer between stages				
Net transfer between stages	-	-	-	-
- Transfer to Stage 1	119	(119)	-	-
- Transfer to Stage 2	(29)	73	(44)	-
- Transfer to Stage 3	(367)	(267)	634	-
- Investments in Sukuk	-	-	-	-
- Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
- Due from financial institutions	-	-	-	-
	(277)	(313)	590	-
Charge/(release) for the Period (net)				
- Financing contracts with customers	483	(1,988)	1,104	(401)
- Investments in Sukuk	4	-	-	4
- Unutilized portion of financing contracts and Financial Guarantees	2	(4)	1	(1)
- Due from financial institutions	2	-	-	2
	491	(1,992)	1,105	(396)
Closing Balance - as at 31 December 2024				
- Financing contracts with customers	615	2,010	3,548	6,173
- Investments in Sukuk	14	-	-	14
- Unutilized portion of financing contracts and Financial Guarantees	2	-	1	3
- Due from financial institutions	19	-	-	19
	650	2,010	3,549	6,209

Movement in Expected credit losses (ECL) as at 31 December 2023

				RO'000
	Stage 1	Stage 2	Stage 3	Total
Exposure subject to ECL				
- Central bank balances	20,693	-	-	20,693
- Financing contracts with customers	195,276	73,585	4,464	273,325
- Investments in Sukuk	22,292	-	-	22,292
- Unutilized portion of financing contracts and Financial Guarantees	24,583	-	-	24,583
- Due from financial institutions	57,658	-	-	57,658
	320,502	73,585	4,464	398,551
Opening Balance as at 1 January 2023				
- Investments in Sukuk	193	2,928	1,664	4,785
- Loss allowance	7	21	-	28
- Financing Commitments and Financial Guarantees	-	5	-	5
- Due from financial institutions	-	-	-	-
	200	2,954	1,664	4,818
Transfer between stages				
- 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	-	-	-	-
- 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	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	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

29 FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

Movement in financing contracts with customers as at 31 December 2024

				RO'000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Exposure subject to ECL				
Opening Balance – as at 1 January 2024	**195,276**	**73,585**	**4,464**	**273,325**
Net transfer between stages	**634**	**(4,346)**	**3,712**	**-**
Originated during the year	**85,164**	**12,085**	**-**	**97,249**
Recovery of Islamic financing assets	**4,197**	**17,133**	**484**	**21,814**
Closing Balance – as at 31 December 2024	**276,877**	**64,191**	**7,692**	**348,760**

Movement in financing contracts with customers as at 31 December 2023

				RO'000
	Stage 1	Stage 2	Stage 3	Total
Exposure subject to ECL				
Opening Balance – as at 1 January 2023	114,110	67,533	3,112	184,755
Net transfer between stages	(520)	(880)	1,400	-
Originated during the year	90,490	16,996	-	107,486
Recovery of Islamic financing assets	(8,804)	(10,064)	(48)	(18,916)
Closing Balance – as at 31 December 2023	195,276	73,585	4,464	273,325

Movement in Investments in Sukuk as at 31 December 2024

				RO'000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Exposure subject to ECL				
Opening Balance – as at 1 January 2024	**22,292**	**-**	**-**	**22,292**
Net transfer between stages	**-**	**-**	**-**	**-**
Originated during the year	**9,392**	**-**	**-**	**9,392**
Derecognized during the year	**-**	**-**	**-**	**-**
Closing Balance – as at 31 December 2024	**31,684**	**-**	**-**	**31,684**

Movement in Investments in Sukuk at 31 December 2023

				RO'000
	Stage 1	Stage 2	Stage 3	Total
Exposure subject to ECL				
Opening Balance – as at 1 January 2023	18,244	-	-	18,244
Net transfer between stages	-	-	-	-
Originated during the year	5,010	-	-	5,010
Derecognized during the year	(963)	-	-	(963)
Closing Balance – as at 31 December 2023	22,292	-	-	21,292

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Movement in unutilized portion of financing contracts and Financial Guarantees as at 31 December 2024

				RO'000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Exposure subject to ECL				
Opening Balance – as at 1 January 2024	**21,349**	**3,234**	**-**	**24,583**
Net transfer between stages	**95**	**(96)**	**1**	**-**
Originated during the year	**2,503**	**-**	**-**	**2,503**
Derecognized during the year	**(9,164)**	**(3,138)**	**-**	**(12,302)**
Closing Balance – as at 31 December 2024	**14,783**	**-**	**1**	**14,784**

Movement in unutilized portion of financing contracts and Financial Guarantees as at 31 December 2023

				RO'000
	Stage 1	Stage 2	Stage 3	Total
Exposure subject to ECL				
Opening Balance – as at 1 January 2023	30,321	7,368	-	37,689
Net transfer between stages	-	-	-	-
Originated during the year	1,032	149	-	1,181
Derecognized during the year	(10,004)	(4,283)	-	(14,287)
Closing Balance – as at 31 December 2023	21,349	3,234	-	24,583

Movement in due from financial institutions as at 31 December 2024

				RO'000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Exposure subject to ECL				
Opening Balance – as at 1 January 2024	**57,658**	**-**	**-**	**57,658**
Net transfer between stages	**-**	**-**	**-**	**-**
Originated during the year	**45,499**	**-**	**-**	**45,499**
Derecognized during the year	**-**	**-**	**-**	**-**
Closing Balance – as at 31 December 2024	**103,157**	**-**	**-**	**103,157**

Movement in due from financial institutions as at 31 December 2023

				RO'000
	Stage 1	Stage 2	Stage 3	Total
Exposure subject to ECL				
Opening Balance – as at 1 January 2023	10,991	-	-	10,991
Net transfer between stages		-		
Originated during the year	46,667	-	-	46,667
Derecognized during the year	-	-	-	-
Closing Balance – as at 31 December 2023	57,658	-	-	57,658

29 FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2024:

				RO'000
	Stage 1	Stage 2	Stage 3	Total
Gross financing to customers - corporate Banking				
Performing financing (Grades 1-5)	210,779	17,473	-	228,252
Performing financing (Grades 6)	2,647	19,279	-	21,926
Performing financing (Grades 7)	-	25,444	-	25,444
Non-performing financing (Grades 8-10)	-	-	6,862	6,862
Gross financing to customers - Corporate Banking	213,426	62,196	6,862	282,484
Gross financing to customers - Retail Banking				
Performing financing (Grades 1-7)	63,450	1,995	-	65,445
Non-performing financing (Grades 8-10)	-	-	830	830
Gross financing to customers - retail Banking	63,450	1,995	830	66,275
Total gross financing to customers	276,876	64,191	7,692	348,759
Loss allowance-carrying amount	616	2,010	3,549	6,175
Credit related contingent items				
Performing financing (Grades 1-5)	14,782	-	-	14,782
Performing financings (Grades 6)	-	-	-	-
Performing financings (Grades 7)	-	-	-	-
Non-performing financing (Grades 8-10)	-	3	-	3
Total gross credit related contingent items	14,782	3	-	14,785
Loss allowance-carrying amount	33	-	1	34
Due from banks and financial institutions				
Performing Banks (Aa1 to Baa3)	87,689	-	-	87,689
Performing Banks (Unrated)	15,468	-	-	15,468
Due from banks and financial institutions	103,157	-	-	103,157
Loss allowance-carrying amount	11	8	-	19
Investment in Sukuk				
Performing Sukuk (Aa3 to Ba3)	31,684	-	-	31,684
Loss allowance-carrying amount	14	-	-	14
Acceptances (Aa3 to Ba3)	108	-	-	108
Loss allowance-carrying amount	-	-	-	-

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 3l December 2023:

				RO'000
	Stage 1	Stage 2	Stage 3	Total
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)	21,349	3,088	-	24,437
Performing financings (Grades 6)	89	-	-	89
Performing financings (Grades 7)	-	57	-	57
Non-performing financing (Grades 8-10)	-	-	-	-
Total gross credit related contingent items	21,438	3,145	-	24,583
Loss allowance-carrying amount	27	4	-	31
Due from banks and financial institutions				
Performing Banks (Aal to Baa3)	49,958	-	-	49,958
Performing Banks (Unrated)	7,700	-	-	7,700
Due from banks and financial institutions	57,658	-	-	57,658
Loss allowance-carrying amount	9	8	-	17
Investment in Sukuk				
Performing Sukuk (Aa3 to Ba3)	22,292	-	-	22,292
Loss allowance-carrying amount	10	-	-	10
Acceptances (Aa3 to Ba3)	241	-	-	241
Loss allowance-carrying amount	-	-	-	-

29 FINANCIAL RISK MANAGEMENT (continued)

29.1 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 defense for the Window in terms of usage of models.

29.2 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 BMI 127 (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. The residual maturity profile of the assets, liabilities and equity at 31 December 2024 is as follows:

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RO'000

	On demand within 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2024						
Cash and balances with Central Bank of Oman	26,015	2,202	2,426	2,582	1,826	35,051
Due from banks and financial institution	37,688	61,600	3,850	-	-	103,138
Investments in Sukuk	6,251	1,043	3,000	10,952	18,956	40,202
Murabaha receivable	2,216	14,165	778	2,795	3,654	23,608
Ijarah-net	260	1,042	1,561	7,718	38,140	48,721
Diminishing Musharaka	391	2,157	2,959	23,548	147,345	176,400
Forward Ijarah	-	-	-	-	283	283
Service Ijarah	-	2	2	6	7	17
Wakala Bil Istithmar	300	5,387	7,311	32,538	47,989	93,525
Credit Card		31				31
Property and equipment (net)	-	-	-	-	915	915
Other assets	3,258	-	-	-	-	3,258
Total assets	**76,379**	**87,629**	**21,887**	**80,139**	**259,115**	**525,149**
Current accounts	2,068	3,619	2,068	-	2,587	10,342
Due to banks and financial institutions	389	-	-	-	-	389
Other liabilities	8,188	-	-	-	-	8,188
Quasi Equity holders	79,129	165,406	87,659	61,031	58,659	451,884
Mudaraba savings account (including reserves)	799	1,594	1,594	2,391	3,059	9,437
Due to banks and financial institutions under Wakala	45,777	86,628	-	-	-	132,405
Customer Wakala accounts	32,553	77,184	86,065	58,640	55,600	310,042
Owner's equity	-	-	-	-	54,346	54,346
Total liabilities and Quasi Equity holders and owners' equity	**89,774**	**169,025**	**89,727**	**61,031**	**115,592**	**525,149**
Total liquidity gap	**(13,395)**	**(81,396)**	**(67,840)**	**19,108**	**143,523**	**-**
Cumulative liquidity gap	**(13,395)**	**(94,791)**	**(162,631)**	**(143,523)**	**-**	**-**

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29 FINANCIAL RISK MANAGEMENT (continued)

29.2 Liquidity risk (continued)

The maturity profile of the assets, liabilities and equity at 31 December 2023 is as follows:

RO'000

	On demand within 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2023						
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 institution	38,391	19,250	-	-	-	57,641
Investments in Sukuk	1,566	1,069	-	4,185	19,289	26,109
Murabaha receivable	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
Quasi Equity 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 Quasi Equity holders 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)	-	-

The tables below analyses the Window's financial liabilities into relevant maturity groupings based on their contractual maturities. Where there are no contractual maturities, the balances are considered as "Due on demand".

RO'000

At 31 December 2024	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Total
Current accounts	10,342	-	10,342	-	**10,342**
Due to Banks and financial institutions	389	-	389	-	**389**
Other liabilities	8,163	-	8,163	55	**8,218**

RO'000

At 31 December 2023	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Total
Current accounts	22,469	-	-	-	22,469
Quasi Equity - Participatory investment accounts	134,534	94,385	228,919	72,326	301,245
Due to Banks and financial institutions	786	-	786	-	786
Other liabilities	7,030	-	7,030	-	7,030

Liquidity coverage ratio for the year ended 31 December 2024:

	2024 Percentage	2023 Percentage
Liquidity coverage ratio	**105.8**	230.8

Net Stable Funding ratio for the year ended 31 December 2024:

	2024 Percentage	2023 Percentage
Net stable funding ratio	**122.71**	104.8

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29 FINANCIAL RISK MANAGEMENT (continued)

29.3 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 2024	**200 bps increase**	**200 bps decrease**
Earnings impact - RO'000s	**383**	**(383)**

As at December 2023	200 bps increase	200 bps decrease
Earnings impact - RO'000s	140	(140)

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.

							RO'000
	Effective average profit rate (%)	**On demand within 6 months**	**3 to 12 months**	**1 to 5 months**	**Over 5 years**	**Non-profit bearing**	**Total**
31 December 2024							
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	35,051	35,051
Due from banks and financial institution	5.4%	101,986	-	-	-	1,153	103,139
Financial assets at amortization cost	5.6%	7,295	3,000	15,608	14,299	-	40,202
Murabaha receivable	5.8%	16,381	778	2,795	3,654	-	23,608
Ijarah-net	4.3%	1,302	1,561	7,718	38,140	-	48,721
Diminishing Musharaka	6.2%	2,548	2,959	23,548	147,345	-	176,400
Forward Ijarah	5.5%	-	-	-	-	283	283
Service Ijarah	4.9%	2	2	6	7	-	17
Wakala Bil Istithmar	0.6%	5,687	7,311	32,538	47,989	-	93,525
Credit card	0.0%	-	-	-	-	31	31
Property and equipment (net)	N/A	-	-	-	-	915	915
Other assets	N/A	-	-	-	-	3,258	3,258
Total assets		**135,201**	**15,611**	**82,213**	**251,434**	**40,691**	**525,149**
Current accounts	N/A	-	-	-	-	10,342	10,342
Due to banks and financial institutions	0.0%	389	-	-	-	-	389
Other liabilities	N/A	-	-	-	-	8,188	8,188
Quasi Equity holders	N/A	157,907	174,287	61,031	58,659	-	451,884
Mudaraba savings account (including reserves)	0.6%	2,393	1,594	2,391	3,059	-	9,437
Due to banks and financial institutions under Wakala	5.7%	45,777	86,628	-	-	-	132,405
Customer Wakala accounts	5.6%	109,737	86,065	58,640	55,600	-	310,042
Owner's equity	N/A	-	-	-	-	54,346	54,346
Total liabilities and owners' equity		**158,296**	**174,287**	**61,031**	**58,659**	**72,876**	**525,149**
On-balance sheet gap		**(23,095)**	**(158,676)**	**21,182**	**192,775**	**(32,186)**	**-**
Cumulative liquidity gap		**(23,095)**	**(181,771)**	**(160,589)**	**32,186**	**-**	**-**

29 FINANCIAL RISK MANAGEMENT (continued)

29.3 Market risk (continued)

Profit rate sensitivity gap (continued)

RO'000

	Effective average profit rate (%)	On demand within 6 months	3 to 12 months	1 to 5 months	Over 5 years	Non-profit bearing	Total
31 December 2023							
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	21,585	21,585
Due from banks and financial institution	5.3%	57,641	-	-	-	-	57,641
Financial assets at amortization cost	5.5%	2,634	-	13,844	9,631	-	26,109
Murabaha receivable	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
Quasi Equity 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
Owner's 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 liquidity gap		(14,038)	(76,521)	80,341	48,125	-	-

29.4 Equity risk

The proprietary equity positions are held in the 'FVOCI' category. The market risk is monitored though periodic 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

29.5 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 Window cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Window 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 Window 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 Window has an operational loss reporting database.

Information Security is an essential component of Operational Risk Management. The Window 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 Window 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 Window has the capability to ensure that critical Banking processes are tested to ascertain availability during such situations.

30 CAPITAL RISK MANAGEMENT

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); and
- 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 Quasi equity are also assigned same risk weights as assets funded by own equity.

The capital adequacy for Muzn is set out as below:

RO'000

	2024	2023
Capital base		
Tier I capital	**52,979**	43,655
Tier II capital	**940**	1,938
Total capital base	**53,919**	45,593
Risk weighted assets		
Credit risk	**352,908**	258,183
Market risk	**9,106**	2,579
Operational risk	**12,721**	10,979
Total risk weighted assets	**374,735**	271,741
Capital ratios		
Total Tier I ratio	**14.14%**	16.06%
Total Capital ratio	**14.39%**	16.78%

31 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 includes borrowing and financing of short term funds and foreign exchange activities.
4. 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.

					RO'000
At 31 December 2024	**Retail banking**	**Corporate banking**	**Treasury and investments**	**Others**	**Total**
Segment operating revenues	**3,550**	**14,347**	**5,313**	**-**	**23,210**
Other revenues	**76**	**967**	**906**	**74**	**2,023**
Total revenues	**3,626**	**15,314**	**6,219**	**74**	**25,233**
Return on Quasi Equity holders	**(2,344)**	**(12,333)**	**(2,611)**	**(336)**	**(17,624)**
Net operating income	**1,282**	**2,981**	**3,608**	**(262)**	**7,609**
Operating expenses	**(854)**	**(250)**	**(139)**	**(1,281)**	**(2,524)**
Net Impairment	**(89)**	**591**	**122**	**-**	**624**
Net Profit for the year	**339**	**3,322**	**3,591**	**(1,543)**	**5,709**
Segment assets	**67,037**	**276,704**	**177,235**	**4,173**	**525,149**
Segment liabilities	**61,829**	**266,462**	**132,794**	**64,064**	**525,149**

					RO'000
At 31 December 2023	Retail Banking	Corporate banking	Treasury and investments	Others	Total
Segment operating revenues	3,192	9,212	3,547	-	15,951
Other revenues	67	425	216	223	931
Segment operating revenues Profit expenses	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
Cross 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

MUZN ISLAMIC BANKING

32 SOURCES AND USES OF CHARITY FUND FOR THE YEAR

		RO
	2024	2023
Balance as at 1 January	**8**	-
Non-Islamic income for the year	12	8
Total source	**20**	8
Use of charity fund:		
Oman Charitable Organization	(8)	
Ihsaan Association	(3)	-
Oman Society for the Hearing Impaired	(3)	-
Omani Bahja Orphan Society	(3)	-
Omani Association for Down syndrome	(3)	-
Undistributed charity fund as at 31 December	**-**	8

The Main Charity Fund is dedicated to providing contributions to organizations registered with the Ministry of Awqaf and Religious Affairs. This fund is sourced from late payment fees as well as purified dividend income, ensuring that all contributions align with our ethical and religious standards.

58 Branches in Oman

18 Sadara Centres

7 Muzn Islamic Banking Branches

2 Branches in the UAE

Branches Network

BRANCH	TELEPHONE NO	
Azaiba - HO Branch	24778190	24778355
Muscat South Region Branches		
Hamriya	24831520	24833792
Corniche	24715103	24714245
Wattaya	24563830	24560585
Qurrayat	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
Bukha	26828014	
Muscat Internationl Airport	24356922	24356921
Oman Automotive Association	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
Muzn Ibra	25575694	25575694
UAE		
Abu Dhabi	97126974000	
Dubai	97143049400	